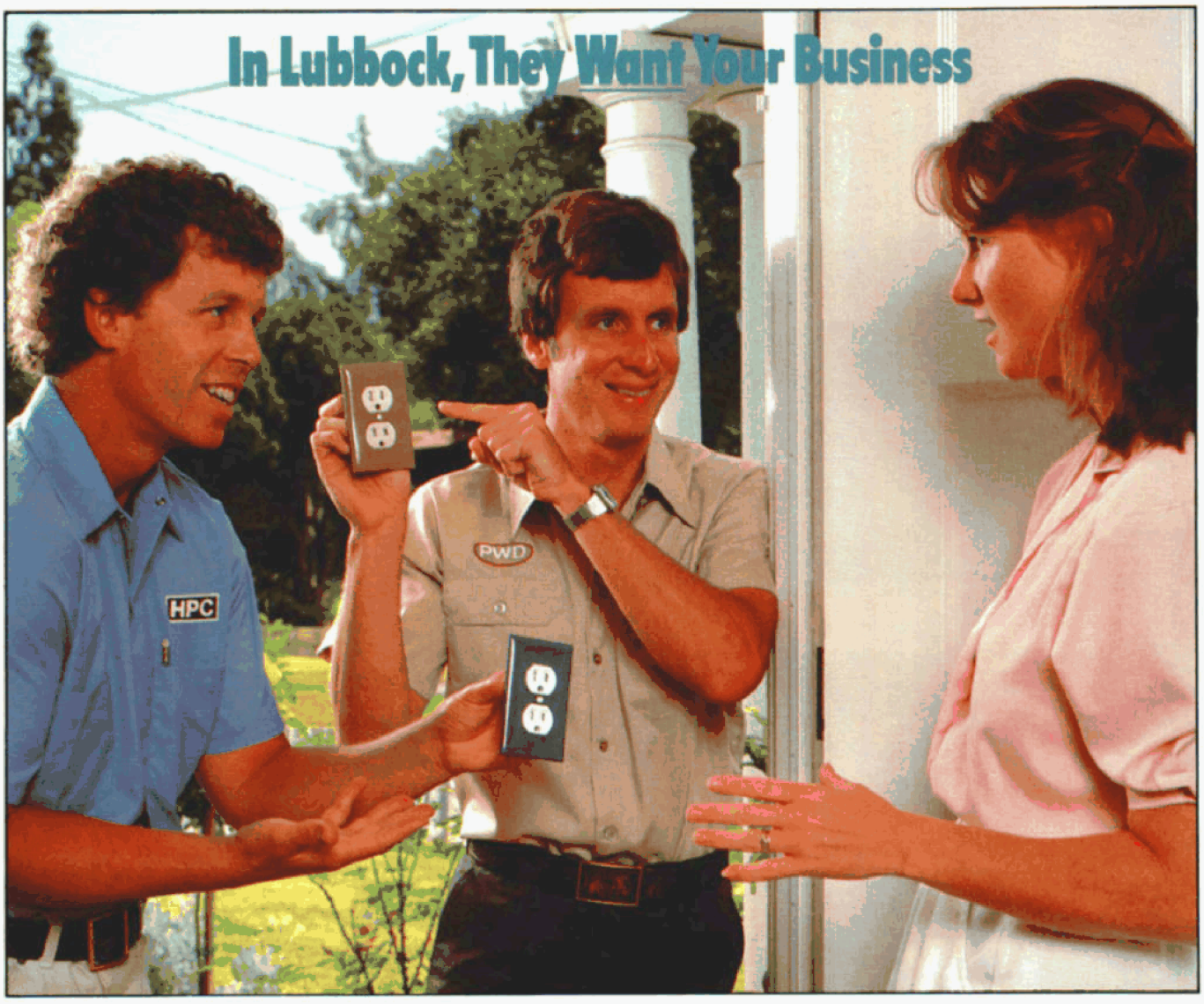
# reason

*Free Minds and Free Markets / October 1981 / $2.00*

CETA Fires a Whistle-Blower

# Choose Your Electric Company




- Bedlam in Britain
- Remembering a Great Economist
- Cuba: Frozen in Time

0 10 74470 66770

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

# SURVIVAL

**Protect Yourself Now against**
**RECESSION,**
**RUNAWAY INFLATION,**
**DOLLAR DEVALUATION,**
**CRIPPLING DEPRESSION.**

## Up or down, NO MATTER WHAT HAPPENS, you can weather the coming storms . . . even prosper . . . by adopting practical survival techniques, before it's too late!

Protect yourself against recession, runaway inflation, dollar devaluation, crippling depression, famine, even revolution. Here's a package of specialized, savvy services designed to show you not just to live with inflation and depression, but how to profit and thrive under those conditions. Find out what the experts are advising. Through this bargain-packed offer, **SELECT INFORMATION EXCHANGE,** America's leading Financial Publications Subscription Agency, makes available to you a selection of 30 sample subscriptions to a variety of these specialized services. Although their annual prices range as high as $195 apiece, your price for the entire package under this amazing one-time-only offer is only $18, or 60¢ apiece. Exact descriptions of each of the 30 publications are below. To order the entire package of 30 sample subscriptions, merely complete and return the coupon below, along with your $18 remittance.

**1. RUFF TIMES.** Edited by one of America's foremost authorities on hard-money economics, Howard Ruff, the author of the national best-seller, "How to Prosper During the Coming Bad Years." Features economic forecast and articles on real estate, inflation, weather and practical solutions to economic problems. **1 Yr, $145.**

**2. SURVIVAL.** Monthly international newsletter discussing diverse aspects of survival-financial, health, education, travel. This important bulletin is published in Switzerland by The Survival Club Ltd., and edited by the co-founders of the Club. **1 Yr, $160.**

**3. THE SURVIVAL MANUAL.** A semi-monthly information source written by Ben Barker spelling out the details of a depression-proof life style. Food and energy independence stressed. Self-starting small businesses, etc. Not an investment advisory service. News and views on current political and financial crises. **1 Yr, $40.**

**4. THE CASEY ADVISORY.** Douglas R. Casey, author of national best-seller CRISIS INVESTING, counsels subscribers on practical inflation survival techniques. His objectives are security, liquidity and profitability. Subscription includes several in-depth Special Reports annually that outline a special opportunity for profit or for concern. **1 Yr, $195.**

**5. ECONOMIC LOGIC.** Clear, concise, logical analyses of current economic problems, forecast of national economic trends, suggested courses of action for inflation survival. Features articles on inflation, gold, business cycle, money and banking. EL's interest rate forecasts are useful as a market timing indicator for stock, bond and gold investors. **1 Yr, $12.**

**6. INFLATION ANALYSIS INSTITUTE, INC.** A monthly practical analysis of inflation factors and their affects on current economies. Specific suggestions to protect assets and income from these inflation factors. **1 Yr, $50.**

**7. PERSONAL FINANCE.** Solid, how-to-do-it and where-to-find-it information. Pro's and con's of gold and silver and other precious metals (bullion, features, coin, commemoratives), foreign currencies, Swiss and other foreign banks. Also antiques, precious gems, fine art, real estate. **1 Yr, $65.**

**8. NEWSLETTER DIGEST.** Offers a concise, current digest of the editorial and market timing comments and specific stock recommendations of the leading investment newsletters. Contains the best of Harry Schultz, Harry Brown, Richard Russell, Julian Snyder, Howard Ruff, Donald Hoppe, James Dines, James Sinclair, and many others. Saves time. Keeps you better informed. **1 Yr, $60.**

**9. HARD FACTS & RHOADS CONCLUSION.** Two market letters in one: "Hard Facts" the long-term view on diamonds, gold, silver, platinum, economics, politics; "Rhoads Conclusion" the short-term view on the Fed, interest rates, commodities, and money markets. Edited by leading hard-money experts. Offensive and defensive strategies for freeing investments from government interference. **1 Yr, $100.**

**10. THE INVESTMENT BULLETIN.** The Investment Bulletin reviews domestic and international monetary and business developments and informs readers how to take advantage of long-term investment trends in gold, silver, coins, foreign currencies, swiss annuities, and domestic stocks and bonds. A quarterly review of Investment Policy (included) recommends allocations of investor's funds to specific investment areas. Supplemental services available. **1 Yr, $25.**

**11. NATIONAL HARD ASSET REPORTER.** Surveys entire "hard asset" markets each month. Includes gold (coins and futures), silver, copper, platinum and lumber. Also foreign exchange parities and how to trade currencies on the international Monetary Market. Monthly features include trading opportunities in T-bill futures. Also surveys the numismatic coin investment market. Every issue looks at upcoming economic conditions with emphasis on inflation and depression. **1 Yr, $47.**

**12. THE RICHLAND REPORT.** Penetrating, erudite, articulate report by an investment counselor "economically slightly to the right of Von Mises and Adam Smith." Technical and fundamental commentaries on overall money, gold, bond and stock market timing and trends. Specific "subscriber only" buy, hold and sell recommendations. **1 Yr, $145.**

**13. FREE MARKET PERSPECTIVES.** Assesses current trends in the economy and financial markets by tracking sensitive money and credit trends. It also carefully monitors trends in government intervention and calculates their impact upon economic trends and individual investments. **1 Yr, $50.**

**14. THE I.M.M. NEWSLETTER.** Discusses stocks, bonds, commodities, and political-economic factors as they affect investment programs. Written by a former trader on the international monetary market. **1 Yr, $50.**

**15. THE MCSHANE LETTER.** An international, economically-oriented investment letter published by Donald B. McShane, recognized monetary expert and NY-based investment counsellor. Emphasis is on fundamentals of the credit structure and banking system, currencies and interest rates, with an eye to cyclical economic waves. Forecasts and specific gold and stock recommendations are highlighted by Mr. McShane's popular writing style. **1 Yr, $125**

**16. NUMISCO LETTER.** A concise, intelligent monthly newsletter on all aspects of coin investing. Combines clear, comprehensive advice with specific investment recommendations. Guides the investor step by step, month by month through the fascinating world of numismatics. **1 Yr, $97.**

**17. PASSPORT INTERNATIONAL.** International investment letter from Switzerland. Monthly coverage of precious metals, currencies, stocks and bonds, commodity futures and political developments. **1 Yr, $118.**

**18. THE INDEPENDENT SPECULATOR.** Makes specific buy, sell and stop-loss recommendations in the foreign currency, precious metal and interest rate futures markets. **1 Yr, $97.**

**19. THE BULL & BEAR.** One of the financial world's most comprehensive digests of professional opinion. Summaries of what most of the more prominent hard-money and stock market advisory newsletters are saying. Exclusive articles by the world's most respected investment advisors on such topics as precious metals, stock markets, commodities, foreign currencies, economic trends and monetary survival. Also featured are stocks recommended by the leading brokers. **1 Yr, $10.**

**20. LET'S TALK SILVER & GOLD.** Combines contrary opinion theory, charts, technical analysis and precise timing with concise essays on a broad range of subjects. Some of these are: the prudent man, interest rates, investor vs. trader, BIS, IMF, uptrend signal, downtrend signal, the stock market, state of the union, tax dodge real estate, dehydrated food, survival, patience, silver statistics. **1 Yr, $50.**

**21. AMERICAN GOLD NEWS.** A leading publication reporting monthly on gold mines and mining companies in the Americas and overseas, with news on financial, economic and political developments. Also news on little-known exploration companies, on South African developments and an exclusive column, "Investors' Perspective," covering the more sophisticated aspects of investing. In addition there are hard to find stock quotation tables, charts, articles on coin, mining history, etc. **1 Yr, $10.**

**22. WORLD MONEY ANALYST.** Backed by a world-wide team of market analysts, economists and tax lawyers, this service covers precious metals, currencies, stock and commodity markets world-wide; analyzes tax havens, foreign banks, and the world economy. Annual subscribers also receive periodic confidential reports and a 100-page yearbook. **1 Yr, $95.**

**23. GOLD NEWSLETTER.** National Committee for Monetary Reform. Regularly covers the entire field of gold: potential price movements; international money reform; new laws on gold; important news and views on gold from around the world. **1 Yr, $39.**

**24. GOLD STANDARD NEWS.** Analyzes current events effecting gold, hedging strategies, practical solutions to modern monetary problems, and commentary from the world's leading economists. Edited by Conrad Jules Braun. **1 Yr, $25.**

**25. GOLDTRACK: THE WHITE LETTER.** Econometric forecasts of prices of gold bullion and krugerrands from one to twelve months into the future, generated by sophisticated statistical techniques. Each issue contains charts of projections, tables showing past performance and incisive discussion. **1 Yr, $150.**

**26. THE DIAMOND REGISTRY BULLETIN.** Published since 1969. Important current data concerning present and future outlook of the diamond market. Also contains general information concerning trends in gold, precious stones and jewelry, marketing. A special confidential wholesale diamond price list stating size, shape and quality included in each issue. **1 Yr, $55.**

**27. GEM UPDATE.** A bi-monthly update of prices and trends in the gemstone field. Specific attention is directed to rubies, sapphires, and emeralds as well as the semi-precious gems. Price trends and graphs are provided to accurately gage the market place. **1 Yr, $48.**

**28. J. K. LASSER TAX REPORT.** Tax-saving tips and ideas. The oldest tax service in America features ideas on investments, business, estate and family planning, and much more. Subscription includes monthly Special Memo probing subjects of particular importance to taxpayers of all types. **1 Yr, $42.**

**29. TAX ANGLES.** Tax saving ideas, strategies, and techniques. The only advisory tax letter today written in a lucid, easy to understand style. Written specifically for the self-employed, professionals and investors. Offers numerous ways to cut drastically your tax bill using legitimate tricks and techniques. Includes guest commentaries and tax angles by the top tax writers in America. **1 Yr, $44.**

**30. BRENNAN REPORTS.** Current tax sheltered investment programs in the real estate, equipment leasing, oil and gas, movies, farming and other markets. Also explores recent legislation, rulings, decisions and articles affecting tax sheltered investments. **1 Yr, $100.**

**Franklin House Co.**
**P.O. Box 489, Bronxville, N.Y. 10708**

**YES.** Please send me your package of sample subscriptions to 30 different specialized survival advisory services as described above. Although the regular annual subscriptions range as high as $195 apiece, I am enclosing only $18, or about 60¢ apiece, as complete payment for this package.

**PACKAGE #23**

NAME _____

ADDRESS _____

CITY _____ STATE _____ ZIP _____

**NOTE:** Publications listed in this ad are those participating in the offer at the time the ad was prepared. Over the course of time, many of those listed might discontinue or withdraw from the offer. When this occurs, other publications of the same general substance are substituted. Therefore, some of the publications actually received under the offer might be different from some of those listed in the ad.

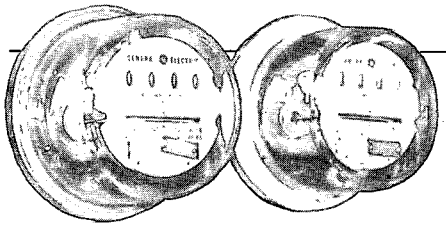
LICENSED TO UNZ.ORG

OCTOBER 1981/VOL. 13, NO. 6

# reason

*Free Minds and Free Markets*

## FEATURES



**Metering competition 23**

### TWO UTILITIES ARE BETTER THAN ONE

*Do you ever wish you didn't have to put up with the only electric company in town? In some places residents* don't *have to grin and bear it, and inquisitive economists are finding that consumers are the better for it.*

By Jan Bellamy ..... **23**

### INSIDE CUBA TODAY

*Railroads, billboards, old cars, ration books, apartment barters . . . a traveler's observations add up to a picture of life in Castro's country.*

By Robert Poole, Jr. ..... **31**

### REMEMBERING VON MISES

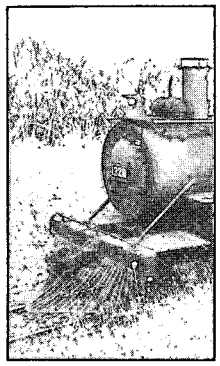
*Centennial kudos for a path-breaking economist.*

By Ross Levatter ..... **37**

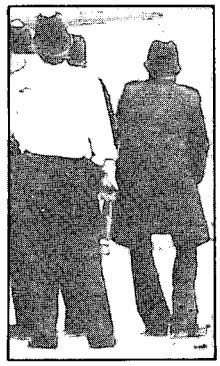
### IT'S A COMPANY TOWN

*From accordions to zeppelins, for everything there are lobbyists; and their biggest accounts are in Washington.*

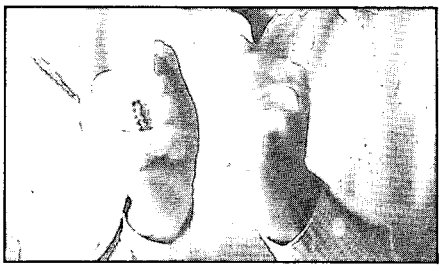
By William H. Peterson ..... **38**



**Cuba tour 31**



**Bombed 40**



**Handing it to CETA 42**

### BOMB THROWING IN BRITAIN: WHY?

*REASON's British correspondent, just a few miles away from the riots in Brixton, offers some answers.*

By Eben Wilson ..... **40**

### GAMBLING ON TRUTH

*Working in Atlantic City, Joan Bowden was told by her peers and superiors that she was too honest, that fraud goes on all the time. Was she working for criminal elements in the casinos? Guess again.*

By Randy Fitzgerald ..... **42**

## DEPARTMENTS

**EDITORIAL**/Making War on Americans ..... **6**
**VIEWPOINT**/Conventional Objections ..... **48**
**MONEY**/Metals: Bonanza or Strategic Mistake? ..... **49**
**HEALTH & WELFARE**/How to Stay Well: The Body's Defenses ..... **50**
**SPOTLIGHT**/Computer-Bytten ..... **51**

**EDITOR'S NOTES** ..... **4**
**LETTERS** ..... **8**
**BRICKBATS** ..... **12**
**TRENDS** ..... **14**
**ARTS & LETTERS** ..... **52**
**RUDEBARBS** ..... **58**

*Cover photograph by Bill Boyd*

**REASON** (ISSN 0048-6906) is published monthly by the Reason Foundation, 1018 Garden St., Santa Barbara, CA 93101. Second class postage paid at Santa Barbara and additional mailing offices. **Postmaster:** send address changes to REASON, Box 28897, San Diego, CA 92128.

**CORRESPONDENCE:** Send *new subscriptions* and *address changes* (include address label and new address) to REASON, Box 28897, San Diego, CA 92128. (714) 485-6535. Allow six weeks. Send *manuscripts* (for return, include SASE), *letters,* and *classified ad orders* (with payment) to REASON, Box 40105, Santa Barbara, CA 93103 (805) 963-5993.

**COPYRIGHT** © 1981 by the Reason Foundation. All rights reserved. Reproduction or use, without permission, of editorial or graphic content is prohibited. Opinions expressed in signed articles and columns do not necessarily represent the views of the editors or of the trustees, officers, or advisory board of the Reason Foundation.

# reason

**Editor**
Robert Poole, Jr.

**Associate Editor**
Marty Zupan

**Senior Editors**
Manuel S. Klausner, Tibor R. Machan

**Assistant Editor**
Christine Dorffi

**Art Director**
Matthew Burbott

**Contributing Editors**
David Brudnoy, James Dale Davidson, Edith Efron, Mark Frazier, John Hospers, Eric Mack, Henry G. Manne, William Marina, Karl Pflock, Lowell Ponte, Alan Reynolds, Murray Rothbard, Thomas Szasz

**Foreign Correspondents**
Prakash Aswani/*Middle East*, Rick Bolstler/*Canada*, Anne Brincker/*Denmark*, V. R. Forbes/*Australia*, Ole-Jacob Hoff/*Norway*, John-Henri Holmberg/*Sweden*, Hubert Jongen/*The Netherlands*, Riccardo La Conca/*Italy*, Henri LePage/*France*, Leon M. Louw/*South Africa*, Guy de Maertelaere/*Belgium*, H. Joachim Maitre/*West Germany*, N. G. Molinelli/*Argentina*, Luis Reig/*Spain*, Eben Wilson/*England*

**Departments**
Steve Beckner/*Money*, Timothy Condon/*Taxes*, Patrick Cox/*Spotlight*, Thomas Winslow Hazlett/*Brickbats*, John Hospers/*Movies*, Randall K. Hylkema/*Rudebarbs*, Richard N. Mitchell/*Language*, Durk Pearson and Sandy Shaw/*Health & Welfare*, Robert Poole, Jr., and Christine Dorffi/*Trends*

**Advertising Director**
Robert Bakhaus

**Business Manager**
Madelyn Romaszewski

**Office Manager**
Cathy Chmel

**Staff**
Elizabeth Anderson, Ashley Brooks, Louis A. Rollins, Michele Segan

**Typesetting**
Jean Graphics

**ADVERTISING:** For display advertising contact Robert Bakhaus, 1018 Garden St., Santa Barbara, CA 93101. (805) 963-5993. Deadline for insertion orders: 1st of month. Ad appears 40 days later. For classified ads, see Classified page, this issue.

**SUBSCRIPTIONS:** Subscribers are members of the Reason Foundation. Membership is $19.50 per year. Outside North America add $8/year for surface; $36/year airmail. Payment from Canada: US dollar postal money orders only. Send orders to REASON, Box 28897, San Diego, CA 92128.

**BACK ISSUES:** Obtain list from REASON Back Issues, Box 40105, Santa Barbara, CA 93103. Vols. 1-4 are available on microfilm from University of Southern California Library Micrographics Dept., University Park, Los Angeles, CA 90007. Vols. 5 and up are available from Xerox University Microfilms, 300 N. Zeeb Rd., Ann Arbor, MI 48106. Indexed in *America: History and Life; Historical Abstracts; Public Affairs Information Services Bulletin;* and *Public Issues Index.*


# editor's notes

**We continue to be pleased** with the growing press coverage of REASON articles. The winner in recent weeks seems to be our exposé of NASA's attempt to put one over on Congress (Aug.). The Zodiac News Service sent out a story based on the article, which has resulted in radio interviews thus far on eight stations—in New York, Atlanta, New Orleans, Houston, Fayetteville (Arkansas), Anaheim, San Francisco, and Alberta (Canada). A national TV network has also made inquiries and may do a story as well. Meanwhile, our old faithful Love Canal exposé (Feb.) received a half-page write-up in the July 27 issue of *Fortune.*

Our July cover story on privatizing Wilderness lands was the lead item in *Business Week*'s "Economic Diary" section in its July 13 issue. It was also the subject of a syndicated column by Jenkin Lloyd Jones. And Morgan Norval's exposé of the intervenor funding program at the Federal Trade Commission (July) was inserted in the *Congressional Record* by Sen. James McClure (R-Idaho). It's being reprinted in *Consumers' Research* magazine. Finally, my editorial "Straight Thinking About Guns" (June), besides being reprinted in the *Manchester Union Leader* (June 9) has been given a James Madison Award by the Second Amendment Foundation.

**Our August cover story** on private streets has made a big hit in Washington—specifically, at the Department of Housing and Urban Development. At the weekly top-level staff meeting the last week in July, Undersecretary Donald Hovde read excerpts from the article and discussed HUD's intention to stimulate street-closing projects in cities across the country. Now if only they would remember the article's point that full-fledged privatization offers incentives that don't come with simply closing the street to through traffic. . . . But it's a start!

**Our resident philosopher**, Senior Editor Tibor Machan, continues a hectic schedule of speaking and writing. Hard at work on two books (one on human rights, another on science and society), he found time to give a paper on victims of crime at a Pace University conference and to organize the Reason Foundation/Liberty Fund colloquium on private property in May. June found him welcoming a dozen scholars from law, economics, political science, and philosophy for the Reason Foundation's summer research seminar on the welfare state. Machan's Summer 1981 *Policy Review* article, *Wronging Rights,* has been excerpted in several newspapers. He and Associate Editor Marty Zupan coauthored "On Sexism in Language," which appeared in the June 27 issue of *The News World.* And in July Machan had an op-ed page article on abortion in the *Los Angeles Times.*

Your editor, meanwhile, keeps up a hectic pace, as well. In June I spent a week at a conference on natural resources issues for journalists at the Center for Political Economy and Natural Resources of Montana State University. In July I addressed the Libertarian Party of Hawaii, the Honolulu Press Club, and the Honolulu Rotary Club on the subject of privatization of local government services (and appeared on several talk shows, as well). August found me on three panels at the Libertarian Party national convention, and in September I addressed the American Economic Council's Survival Conference in San Francisco. Assistant Editor Christine Dorffi was also a speaker at one LP convention panel.

**REASON people** are being published at a record pace. Advisory Board member William R. Allen's book, *Midnight Economist,* was due out by the end of September from Playboy Press. Containing scripts from Professor Allen's witty and informative radio commentaries of the same name, the book carries an introduction by Milton Friedman. Trustee M. Bruce Johnson is the editor of a new book from the Pacific Institute for Public Policy Research, *Resolving the Housing Crisis.* It's a collection of essays resulting from a conference held last fall in Los Angeles. Johnson also serves as research director of the Pacific Institute.

Three REASON authors have articles in *Reader's Digest*: Randy Fitzgerald on union violence in the August issue, Tom Hazlett on the effects of California's Proposition 13 in the October issue, and my own piece on federal aid to cities in the November issue. Watch for them.

**—R. P.**

# The Eighth Libertarian Scholars Conference

Directed by the Center for Libertarian Studies

**October 30, 31 & November 1, 1981**

**New York Sheraton Hotel • New York City**

| | | |
|---|---|---|
| **FRIDAY,** October 30 | Registration | 3:00- 5:00 |
| | Reception | 5:30- 7:00 |
| | Dinner | 7:00- 9:00 |
| PANEL I—The Reagan Administration's Policies: A Critique | | 9:00-11:00 |
| | Hospitality Suite | 10:00-11:30 |
| **SATURDAY,** October 31 | Breakfast | 8:00- 9:15 |
| PANEL II— Law and Economics | | 9:30-11:30 |
| | Lunch | 12:00- 1:30 |
| PANEL III—Religion and American Politics | | 2:00- 4:00 |
| | Reception | 5:30- 6:30 |
| | Banquet | 6:30- 8:00 |
| PANEL IV—The Libertarian Movement and Scholarship | | 8:00-10:00 |
| | Hospitality Suite | 10:00-11:30 |
| **SUNDAY,** November 1 | Breakfast | 8:00- 9:15 |
| PANEL V—Education and the State | | 9:30-12:30 |

**"What we need is nothing else than to substitute better ideas for bad ideas. This I hope and am confident,will be done by the rising generation."**

**Ludwig von Mises**

Hotel accommodations for out-of-town attendees have been reserved at the New York Sheraton Hotel, Seventh Avenue and 56th Street. The complete conference package which includes all meals, hotel accommodations for two nights and conference sessions is available for $200.
The same package without hotel accommodations is $140. Registration begins at 3:00 p.m. on Friday, October 30.
For more information, contact Richard Seiden, Executive Director or Dyanne Petersen, Conference Coordinator, at:

CENTER FOR LIBERTARIAN STUDIES
200 Park Avenue South,
New York, N.Y. 10003
(212) 533-6600

# Making War on Americans

## editorial

THE REAGAN REVOLUTION has triumphed in Washington. The margin of victory of the administration's tax and spending cuts reflects the depth of the American people's mandate to cut the size and scope of government. Yet that mandate is now about to be cast aside in the name of "social issues," up till now kept on the back burner.

Heading the agenda of social issues is drugs. What the New Right activists and their allies want is nothing less than an all-out mobilization, enlisting the Army, the Navy, the Air Force, the IRS, the Justice Department, and the State Department in an all-out war on drug producers and consumers. The price we would pay for all this? The loss of more of our dwindling freedoms.

The call to arms was sounded back in April by presidential counselor Edwin Meese. Addressing 250 prosecutors, Meese said the administration would mount "a more massive and extensive" campaign against drug trafficking than ever before attempted. The battle plan soon became clear.

The first step is to enlist the military. The idea is to allow the Air Force to disseminate data from spy satellites (ship movements, crop locations), the Army to make sniperscopes and other equipment (and training) available to local police, and the Navy to aid the Coast Guard in intercepting ships on the high seas (which used to be called, in the days of limited government, piracy). To permit these changes, the existing ban on military involvement in everyday law enforcement—the 1878 Posse Comitatus Act—would have to be repealed. By late summer both houses of Congress had complied.

The next step is to weaken the hard-won protections of the 1974 Taxpayers Privacy Act, which prohibited disclosure of information from income tax returns. A bill to allow the IRS to share information with other agencies investigating nontax matters sailed through the Senate in July. Along with that measure, the Treasury Department is planning stricter enforcement of the misnamed Bank Secrecy Act of 1970, further prying into the privacy of citizens' financial dealings and imposing further burdens on banking institutions.

The third step is to undermine the protections afforded those arrested and accused of crimes (and not merely "drug-related" crimes). For example, the Justice Department is seeking legislation to allow judges to deny bail to defendants who seem likely to flee.

And step four is to harass and intimidate the governments of other sovereign nations whose citizens are engaged in growing poppies, marijuana, and other forbidden crops. The State Department, says Meese, will work to "convince other countries... that it is not in their national interests to tolerate drug traffic."

In addition, the administration has put the former FBI executive assistant director, Bud Mullen, in charge of the Drug Enforcement Administration and is considering folding the agency into the FBI. "If we can marry the DEA's street savvy with the FBI's talents and its 1,100 accountants—and bring in the Internal Revenue Service as well—then we can do the job," Mullen told *Time* recently.

In short, the plan is to increase substantially the size and scope of government activity and its coercive interference in people's lives—drug traffickers in particular, but all of us in general. And what are we likely to get in return for these new assaults on our liberty and pocketbooks? Not much.

Since 1973, when the DEA was created to step up federal antidrug activity, the number of heroin addicts has quadrupled. What stiffer enforcement has done, by restricting heroin supply, is to raise the price—and profitability—of heroin. That has attracted into the field even more criminal entrepreneurs, marketing heroin to more users.

Sadly, it has also contributed directly to the rise in crime. By making heroin more costly, drug enforcement activity leads addicts to commit ever more crimes in order to pay for a drug that, if legal, would cost at most a few dollars a day. A recent Temple University study of 237 addicts found that they committed more than 500,000 crimes during an 11-year period when they were out of jail and using the drug. But during periods when they were *not* addicted, these same individuals averaged *84 percent* fewer crimes.

Amazingly, though, the antidrug zealots are drawing exactly the wrong conclusion from the Temple study. Instead of arguing for repeal of the laws that force the price so high that addicts must steal, they are saying that it proves the connection between heroin *use* and crime—and that efforts to stamp out heroin use by arresting traffickers must be stepped up. In fact, such measures will simply make the crime problem even worse.

Ronald Reagan is in a unique position to do something about this hysteria. Just as only a conservative Republican like Richard Nixon could change US policy toward China and get away with it politically, just as liberal Democrat Ted Kennedy could lead the fight against airline regulation, so also could Ronald Reagan provide the moral leadership to end America's insane war on drugs. Jimmy Carter had promised to end federal penalties on marijuana possession—but caved in rather than be perceived as a soft-headed liberal.

But Ronald Reagan has a tremendous mandate from the American people to get Big Government out of their lives. Ronald Reagan could go to the American people and explain to them that Prohibition didn't work against alcohol and is not working against drugs, that solving our crime problems requires taking the huge profit out of drugs by repealing the existing "crime tariff," and that the attempt to wage war on drugs involves too great a cost to traditional American values of individual liberty, privacy, and the separation of powers.

It isn't only civil libertarians who are saying this. Both the *Wall Street Journal* and former senator (and constitutional lawyer) Sam Ervin have come out strongly against repeal of the Posse Comitatus Act. They, too, seem to recognize that war is the health of the State—and that the main result of the war on drugs will be to build an ever more powerful and oppressive American State.

Robert Poole, Jr.

# How to stay ahead of inflation.

Investing wisely is the best way to make your money work for you. But making the right financial decisions isn't always easy.

That's why these practical books on personal money management from the Conservative Book Club will be invaluable aids in helping you achieve a maximum return on your investments.

By joining the Conservative Book Club, you'll receive three of these money-making volumes for only 99¢ — a value up to $51.85. You'll then have access (through our FREE Club Bulletin) to a wide range of hard-to-get conservative books on everything from personal investment and economics, politics, government, and history, to health, religion, philosophy, and the preservation of individual liberties.

The Conservative Book Club is more than just a book club. It's been a vital part of the conservative movement since 1964. You'll find smash bestsellers by Milton Friedman, William Simon and Barry Goldwater, as well as rare conservative classics by Ludwig von Mises and Henry Hazlitt — always at substantial club discounts.

Join today and start a valuable personal investment library for only 99¢. It could be one of the smartest investments you'll ever make.

**Choose from these books and the ones below:**

**2213. A Time For Action**
by William E. Simon Pub. price $10.00

**2246. The Government Against The Economy**
by George Reisman Pub. price $12.95

**2170. Fat City:** How Washington Wastes Your Taxes by Donald Lambro Pub. price $12.95

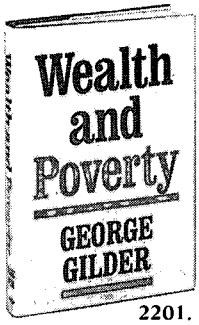
**0158. Theory and History:** An Interpretation of Social and Economic Revolution
by Ludwig von Mises Pub. price $13.95

**2247. 99 Ways To Make Money In A Depression**
by Donald Appel Pub. price $14.95

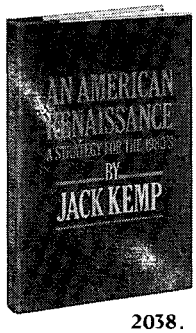
**2088. How You Can Profit From Gold**
by James E. Sinclair & Harry D. Schultz
Pub. price $14.95

**2060. Capitalism: Sources of Hostility**
by Ernest van den Haag Pub. price $9.95

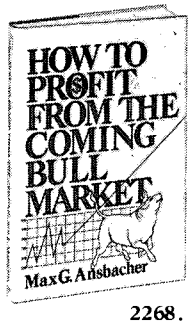
**2184. Panics and Crashes**
by Harry D. Schultz Pub. price $12.95



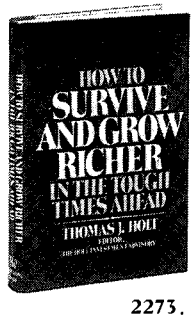

**2201.**
Pub. price $16.95



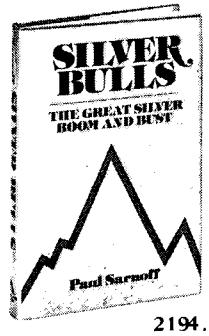

**2038.**
Pub. price $8.95



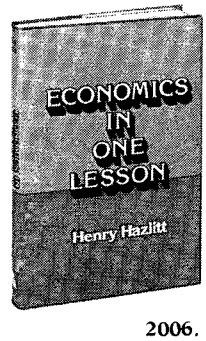

**2268.**
Pub. price $12.95



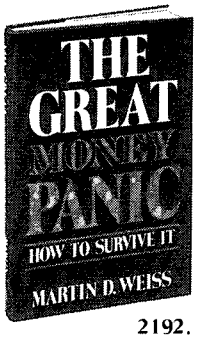

**2273.**
Pub. price $11.95



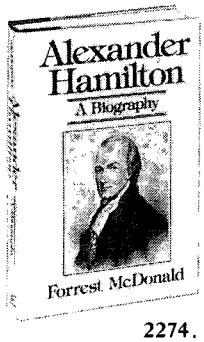

**2194.**
Pub. price $12.95



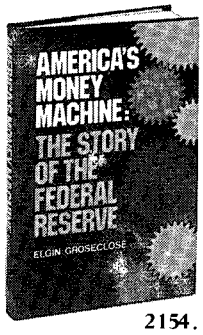

**2006.**
Pub. price $9.95



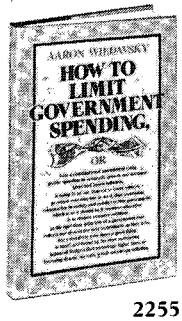

**2192.**
Pub. price $14.95



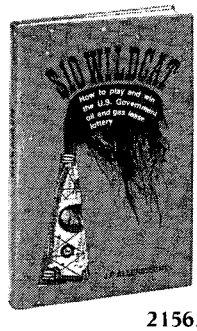

**2274.**
Pub. price $19.95



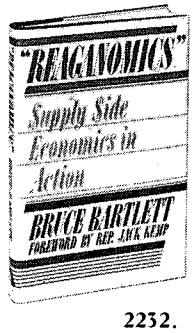

**2154.**
Pub. price $14.95




**2255.**
Pub. price $11.95




**2156.**
Pub. price $14.95




**2232.**
Pub. price $14.95

## *The Conservative Book Club*

P.O. Box 10655, Des Moines, Iowa 50336

# 3 Books for 99¢

**(A value over $50.00)**

**As a Conservative Book Club Member:**

★ You'll have access to many outstanding books not readily available in bookstores. ★ You'll receive 15 Conservative Book Club Bulletins per year, filled with news of interest and current Club offerings. ★ YOUR ONLY OBLIGATION is to buy 3 books over the next year, first-quality publishers' editions normally at 20% to 50% off publishers' prices. ★ If you wish to order the Main Selection, do nothing. It will be sent automatically. If you want one or more Alternate books — or no book at all — indicate that on the reply card and return it by the date specified. ★ If you receive a Selection without having 10 days to exercise your option, you may return it at Club expense.

**The Conservative Book Club, P.O. Box 10655, Des Moines, Iowa 50336**

☐ Please send the 3 books I've indicated below and enroll me in the Conservative Book Club. Bill me just 99¢ plus postage and handling. I agree to buy 3 additional books over the next year at regular club prices. A postage and handling charge is added to each shipment.

Indicate by number the 3 books you want: ☐ ☐ ☐

Name **B75**

Street

City State Zip

Prices somewhat higher in Canada and abroad.

# letters

## Chipping Away at the Status Quo

Imagine my giddy delight when I heard Eric Zuesse discuss his REASON Love Canal story (Feb.) on the Larry King radio show and then, one month later, see a full half-hour devoted to this same story on ABC's *Nightline*. I could not believe my eyes. And then, lo and behold, *Business Week*'s July 13th issue mentions John Baden and Richard Stroup's wilderness proposal, seen in the July REASON.

Keep on giving us free-market solutions to statist government-created problems, and I swear you people will turn this country around. Congratulations for such fine, concise writing that even the entrenched media at large cannot ignore the logical proposals put forth in REASON.

**Peter Baker**
**Kennewick, WA**

## Pure Privatization

John Baden and Richard Stroup's "Saving the Wilderness: A Radical Proposal" (July) was a welcome alternative to the antiwilderness perspective of many free-market advocates. I completely agree with their view that the most serious threat to wilderness is government ownership and control. However, they imply that the major reason for the high level of US strategic metals imports is the withdrawal of wilderness lands from development and that therefore the only solution to the danger of a sudden cutoff of supplies is to develop wilderness deposits of these metals. I am not convinced by their argument.

Baden and Stroup acknowledge the inhibiting effect of tax policies, regulations, and antitrust actions on US mineral production but do not consider to what extent removing these would solve the problem. Nor do they mention the option of *stockpiling* strategic metals to prevent the "chaos" of a sudden cutoff....

Because of their emphasis on wilderness resources, Baden and Stroup propose that the government turn over wilderness lands to environmental groups and then *require* that these groups either "develop" these resources (to whose satisfaction?) or "clean-up" an area equal in size.... The authors do not mention the alternative of simply privatizing these areas and letting the free market determine their best use. Although they have made an excellent case for privatizing wilderness areas, they have not justified government intervention to require resource development in these areas.

As a member of the National Audubon Society, I recently received a letter asking me to contribute to their Citizens Mobilization Campaign to halt the "anti-environmental onslaught." I have sent them a copy of Baden and Stroup's article, with a letter explaining why I will not support their campaign as long as it is aimed at maintaining and increasing government ownership of wilderness lands and urging them to work toward transferring control of these lands to private organizations.

**Joseph Maxwell**
**Chicago, IL**

**Mr. Baden replies:** Our primary motivation in writing this article was to focus thought upon property rights as an alternative to public ownership and control. In my view, the details of the arrangement are far less important than the fact that other arrangements are indeed possible.

I am convinced that with clear and enforceable property rights, the private sector would come far closer to the optimal level of stockpiles than would any governmental agency. Essentially, residual claimants face strong incentives to hold the optimal level.... Of course, the incentive for entrepreneurs and financiers to devise systems for safely stockpiling strategic minerals is substantially reduced by some government policies, such as the windfall tax on oil profits. The question becomes, Why risk and save if the benefit for so doing is expropriated (taxed away)? Perhaps a constitutional amendment is in order.

The issue of developing wilderness lands held fee simple by environmental groups creates no special problems. As long as these groups hold the land fee simple, they face the opportunity costs of a failure to develop. In general, only from 0.5 to 2 percent of any wilderness land is likely to contain minerals in sufficient concentrations to merit their development. Clearly, aside from the public goods argument, the best alternative is merely to auction off the land. From this perspective, ours is the second-best solution. It may, however, be more politically acceptable.

I am pleased that we have not justified intervention requiring resource development in wilderness areas. I would be quite disturbed at our success had that been our goal. It assuredly was not.

Communicate with REASON. Box 40105, Santa Barbara, CA 93103. We appreciate receiving your letters typed double-space and limited to 200 words. Letters sent to REASON will be considered for publication (unless otherwise noted) and may be subject to abridgement or editorial comment.

## Spotlight on Aliens

Thank you for Robert Sheaffer's article, "NASA Flimflams Congress" (Aug.). Excellent investigative reporting. However, I must admit that I don't mind NASA spending my tax dollars on their crazy scheme to find extraterrestrial intelligence (or, as they call it, SETI). I just hope they won't want the taxpayers to support the unemployed extraterrestrials when and if they find them! But just in case they do, I have a plan to deliver to my more liberal friends (shame on me), which will be to form an organization called STAF, that is, Save The Aliens Foundation.

Perhaps I will notify Dale Lowdermilk, instead. I very much enjoyed the lighthearted Spotlight on Lowdermilk by Patrick Cox in the same issue. More of the same, please. Lowdermilk responds in kind to the ridiculous. He has a brilliant idea.

**Cheryl Boswell**
**Denham Springs, LA**

## One Man's Poison . . .

The August issue contained a letter urging you to give less proportionate space to articles and features concerning economics. I personally find the economics articles to be the most interesting part of the magazine.

Economics affects all aspects of our society. It is impossible to set the economic picture right without accruing fallout benefits to everything else. Addi-

tionally, once the economy is straightened out, it will be easier to deal with other issues. Then too, there are not many publications which print good material on economics. People such as John Kenneth Galbraith get entirely too much press, and most people don't realize that his type of thinking is part of the problem, not part of the solution.

**R.W. Suit**
**Virginia Beach, VA**

## Stamp Correction

An error occurs in your June article " 'Stamping' Out Inflation," in regard to the formula for computing "compounded annual rate of increase." Presumably the author means the effective annual rate of increase for *continuous compounding,* in which case the quantity "I" in the formula should be the ratio of the selling price to the buying price (and not the difference as stated).

The corresponding formula for the effective annual rate *compounded annually* would be the Nth root of the above ratio minus one, where N is the time in years that the investment is held.

The tabular data presented is correct however; that is, it is calculated in accordance with the correction described above.

**Larry Kuhns**
**Woodland Hills, CA**

## Hanging Tough

In your May editorial, you suggest "tough diplomacy"; that is, the US offer to decommission and retire the base at Guantanamo to Cuban sovereignty provided the USSR will remove its bases from Cuba. Is this being "tough"?

For a two-year period a little more than a decade ago, I exercised all the influence I had as a senior defense official to keep Guantanamo. I did not think then and I do not believe now that the way to maintain a US presence in a region or US prestige in the real world is to further withdraw from overseas—or our own backyard, in this instance. Such withdrawal, rightly or wrongly, is perceived as weakness and does not seem advisable when Central America is undergoing a "Castro-type" experience and after the Panama Canal episode.

It is true that Gitmo does not have the strategic significance it had before nuclear warfare, but it does provide an excellent harbor, supply facilities, etc., for conventional military operations. US presence there prevents the presence of other powers. Of lesser importance is the role Gitmo has in naval operational training because of its unusual access in an hour's time to blue water, although this takes on greater importance with the buildup coming in US naval forces.

However, the "perception" aspect is my overriding concern. I think it is better Yankee trading to hang on to something the Soviets want and give it up for a concession from them than it is to give up something the Soviets want us to give up in return for their getting out of a place where they shouldn't have been in the first place.

**Richard A. Ware**
**Ann Arbor, MI**

*Mr. Ware was principal deputy assistant secretary of defense, international security affairs, 1969-70—Ed.*


# Philosophical Explanations
## Robert Nozick

Robert Nozick's new book is a major intellectual event, establishing the author's position as a preeminent thinker of the twentieth century. *Philosophical Explanations* follows Nozick's highly acclaimed *Anarchy, State, and Utopia* which won a National Book Award.

"How could anyone fail to rejoice in the walk this book takes us on about the world of the great questions—our identity; why is there anything; foundations of knowledge; free will; and the roots of ethics. Nozick introduces us to the best thinking of our time."
—John Archibald Wheeler, Center for Theoretical Physics, University of Texas, Austin

"This book is refreshing, invigorating; and it promises to direct the attention of many non-philosophers to things they've until now considered of interest to philosophers alone."
—James S. Coleman, Department of Sociology, University of Chicago

"A great work—marvelously inventive, deep, and profound. It introduces new possibilities and techniques. It will change the way philosophy is done."
—Gilbert Harman, Department of Philosophy, Princeton University

"Ranges with superb confidence over an immense range of disciplines and subjects. This is an arresting, original, extremely brilliant work."
—Marshall Cohen, Department of Philosophy, City University of New York

$25.00 At local bookstores
The Belknap Press of
**Harvard University Press**
Cambridge, Massachusetts 02138

# Today we quote the experts.
# Because tomorrow the experts will be quoting Nozick.

## Tough Questions on Latin America

I am appalled that REASON would publish on page 35 of the May issue ("An Open Letter to President Reagan"), the sentence, "And our sadly neglected national defenses must be refurbished after years of getting short-shrift from otherwise big-spending politicians." Haven't you people heard: "War is the health of the state"?

I am also disturbed by the Editorial of the same issue, which correctly identifies the problem of US intervention pushing Latin America into the arms of the Communists, yet goes on to advocate "tough diplomacy" involving attempts, albeit nonviolent ones, to manipulate events in Latin America. While I'm pleased that Mr. Poole shrinks from endorsing dictators, I am dismayed to learn that he seems to think that "nonintervention" means only "noninvasion." If the Guantanamo naval base is really "of little military value to the Navy," then we should not use it as a bargaining chip but close it immediately, to save the money involved in running it and to make it harder for Castro to scapegoat the United States. And the suggestion that the United States should negotiate over "access to US grain and technology" rests on the shaky assumption that the US government has the right to interfere with deals between residents of the United States and foreign nations. While the government now claims that right, it is inconsistent with every libertarian scheme that I am aware of.

Mr. Poole implies that we can liberate the hemisphere "by staying out of internal disputes and by keeping the Soviets out, too." Hardly. The right to deal with whom one pleases does not stop at national borders, and it does not disappear if one or both parties happen to be criminals, by whatever definition. If revolutionaries anywhere think the Soviet Union will help them, it is not the function of our government to stop them. Latin Americans are hardly encouraged to achieve a condition in which they can realize and defend their own rights as long as the United States continues its historic course of continually violating them and of pressuring Latin American governments. And the Soviet Union cannot be "kept out" of Latin America by the US government without violating someone's rights, either in the United States or in Latin America. The only thing which will keep them out of Latin America is the same thing that really keeps them out of the United States—a hostile attitude on the part of the inhabitants.

**Mike Lenker**
**Houston, TX**

## Return to Reason

I began reading REASON again this January after a lapse of several years. I am impressed by your magazine's quality now as then. You present articles of importance and interest by people who write in a tone of sanity and emotional maturity. This is very important to me; I would not read REASON if these qualities were less apparent.

I particularly enjoy Trends, which is consistently positive and hopeful. That is important to me when so much of what the media presents is discouragingly anti-free enterprise and anti-freedom. Health & Welfare is a good column too—some very interesting and useful information there, a welcome addition to REASON.

The only feature of REASON I dislike is Brickbats. Hazlett's anecdotes fail to make any conclusive point. . . . He generates a tone of absurdity similar to that of *National Lampoon,* which I particularly dislike. This tone seems out of place in REASON and I think it detracts from REASON's credibility and effectiveness.

Keep up the good work.

**Jeff Tower**
**Denver, CO**

## Supply-Side Politics

The "supply side" fad pushed by J. William Middendorf II and Bruce Bartlett (July) is such a far cry from *laissez faire* that libertarians will not fall for it. Certainly, Murray Rothbard hasn't (June). But there is one statement that Bartlett made which is so outrageous it must be answered.

Bartlett believes in the same fallacy as the liberals do. He introduces the false dichotomy between "economic" freedom and "political" freedom. In Liberal Fantasyland we find the latter without the former. In Bartlandia, "it is possible to have a free-market economy without political freedom, but you can't have the converse. . . " Where, one wonders, does such a place exist? Why, it's the "free-market" dictatorship of Chile.

As libertarians realize, economic freedom and political freedom are two sides of the same coin. You can't have one without the other. A free market is impossible when a nation's citizens have the fruits of their labor confiscated to pay for government atrocities, the enforcement of victimless "crime" laws, etc. There ain't no such thing as a free lunch!

Introduce a few meager market mechanisms, and Bartlett thinks the "free-market economy" has arrived. No doubt when the Chilean government only jails political dissidents instead of murdering and torturing them, Bartlett will announce to the world that political freedom is a reality in Chile.

**Howard L. Glick**
**Madison, WI**

## Tax Questions

Timothy Condon's otherwise excellent "Letter to the President" on the IRS (May) is marred by his suggestion that the income tax be replaced by a tax on consumption, i.e., a sales tax. Far from righting the "inequity of taxing people


# COMING ATTRACTIONS

- **Into Space, Privately:** Why should taxpayers be funding all the R&D for developing a space shuttle that industry is waiting in line to use? The answer: they shouldn't and needn't. REASON's reporter takes you behind the scenes and reveals the exciting developments in private space efforts that could pay off if NASA's monopoly is broken up.
- **Icy Reception:** When "Progressive Portland" tried to enforce energy conservation through a mandatory weatherization program, the citizens rose up in protest. But Portland is not the only place where energy planners are at work.
- **Draft Debates:** Military preparedness requires competent armed forces requires conscription, therefore. . . we must have a draft. . . or we must give up on defending our country. Ah, but maybe one of the premises is wrong.

**Plus:** An all-new Viewpoint columnist, more on staying well by our H&W columnists, interviews, reviews of the silliest and sanest in new books, and all the rest of REASON's regular features.

for working hard," a sales tax would create even worse inequities. I assume Condon's consumption tax would fall on all goods nationwide, including food, but would not fall on labor services. Then if a flat rate 13 percent income tax would bring in the same current federal revenues, and if say one-third of all income is ultimately spent on labor services such as barbers, then the United States would require a 20 percent sales tax (or purchase tax) to cover its current revenues. This on top of existing state sales taxes!

If you have to pay a 20 percent purchase tax on all goods, this has much the same effect as a tax on your income. Furthermore it creates an inequity between services and goods, if labor is exempt from the tax, by distorting the market in favor of services.

The sales tax forces sellers of goods to be tax collectors for the government.... Besides the bookkeeping headaches (ask any store keeper), a high national sales tax would result in a tax gestapo just as bad as that of the IRS. If you doubt this, take a look at what's happening in Great Britain, where the value-added tax (producer's sales tax) inspectors have "been known to make gestapo-style raids on homes when the occupants are in bed and then to search every nook and cranny of the premise to check that the correct amounts of VAT have been paid," (*Land and Liberty*, Jan./Feb.)....

And the suggestion that the sales tax would "promote savings" should be revolting to lovers of freedom. The government has *no business* telling me how to use my hard earned income! Under a sales tax, investments in gold, stamps, and other tangibles would be (and are) heavily taxed, whereas bonds and, presumably, stocks would not be so taxed. The State would thus create yet another inequity for investors. Would houses be subject to sales tax? If you are to be consistent, they would be. Imagine paying a 20 percent tax on the purchase of a $100,000 home! That's equal to the downpayment alone. What would this do to the housing industry?

Advocates of a consumption tax forget that if a person sells a good, the money he gets is income. There is little difference between charging the buyer a 20 percent tax on a product and charging the seller the same 20 percent. The seller would just raise his price by the 20 percent. The result is to raise the price of all goods and reduce real spendable income....

In the near future the government may be considering a value-added tax to squeeze out ever more money from the economy. Those opposed to oppressive taxation should work to eliminate *all* taxes on economic transactions, including sales and use taxes, tariffs, value-added, and excise taxes. All these are taxes on labor and capital, all inhibit production, all are arbitrary, oppressive, and unjust. Suggestions for a national consumption tax undermine the efforts of libertarians in California and elsewhere to get rid of the sales tax.

Let's work to end *both* the "progressive" income *and* the sales tax. Let's not just shift them around from one inequity to another.

**Fred E. Foldvary**
**Berkeley, CA**

**Mr. Condon replies:** I find it difficult to argue with anyone who loathes taxes in general, as does Mr. Foldvary. However, the "progressive" income tax—hereafter referred to as the PIT—is a fact of life, and undoubtedly the most pernicious one we face. Our disagreement is not, "Where do we go from here?" but rather, "How do we *get* from here to there?" I believe the destruction of the PIT is an invaluable first, halting step. There should be many more to follow, but dismantling the PIT should be a first priority because of the following: (1) the PIT encourages government to create inflation, which in turn helps government grow in size and power; (2) the PIT helps destroy existing capital pools and assists in preventing the formation of new ones—the former because capital tends to flee to nonproductive assets in the face of inflation, the latter because of sharply increasing confiscation levels as well as double taxation on money earned by capital; (3) the PIT deadens social mobility—the more industrious and productive one is, the higher the levels of taxation become, thus effectively slowing upward mobility; (4) the PIT, as a form of institutionalized covetousness, splinters potential resistance—those at the bottom of the income scale applaud "making the rich pay more," even as their own earnings are expropriated at increasing rates.

Neither the flat-rate income tax nor a consumption tax shares these extremely pernicious features of our present tax system. That in itself is enough to warrant scrapping the PIT. I also believe that a simpler system of taxation—*any* system—would obviate the need for the powerful and ubiquitous tax police which the PIT has spawned.


**BOOK ADVERTISERS**

*Reason's*

December 1981

**Annual Book Issue**

Our special book issue gets into our readers' hands by mid-November—in plenty of time for holiday gift buying. And, compared to the prices of opera tickets, concert seats, and other cultural events these days, a good book is a lasting bargain.

Many of our readers appreciate this fact. Of our 22,500 current active subscribers, 86 percent buy paperback books (average: 17.5 per year), and 85 percent buy hardcover books (average: 9.8 per year). In addition, 75 percent are professionals or executives, 41 percent have masters or doctorates (79 percent have at least a 4-year college degree), and the average household income is $37,000.

Plus, a bonus: our book publishers' advertising rates are 25 percent less than our general rates!

**Closing Dates:** Ad insert order: October 1, 1981. Ad copy due: October 10, 1981.

For more information, contact Robert Bakhaus, Advertising Manager
**Reason**, 1018 Garden Street, Santa Barbara, CA 93101 805/963-5993

# brickbats

☐ **The great thing** about the federal government, of course, is that once a program proves itself successful, the ball really rolls. Take the US Synthetic Fuels Corporation. For a measly five or ten billion dollars a year, this efficient federal agency provides the best answer yet known to Washington for the Energy Crisis: reports on the Energy Crisis. Synthetic Fuels doesn't really produce energy for consumers, but it's come up with some excellent studies revealing why not.

Well, now that the model has been carved, it would be sheer lunacy for the feds not to cash in by applying it elsewhere, and h-e-e-e-e-e-e-e-r-r-r-r-r-r-e it comes: The Arid Lands Renewable Resources Corporation. A proposed government-funded operation in a new bill cosponsored by Dennis DeConcini (D-Ariz.) and Barry Goldwater (R-same arid land) would "stimulate investment in guayule, jojoba, buffalo gourd and euphorbia—desert plants that yield either rubber or a substitute for crude oil." The "quasi-private corporation" would deal out "loans, loan guarantees, price guarantees and joint ventures to projects to grow these plants." There is no question that a country that can send a man to the moon—or put a Georgia bumpkin in the Oval Office—must have a crash program to develop its desert rot.

There are those relentless cynics who will snidely point out that this piece of legislation looks awful much like a special-interest pay-off to the desert landowners in the Great State of Aridzone, yet a closer look at the facts will blow this right off the table. The taxpayers will subsidize, under this bill, not just the Desert of the Dry Southwest. According to the DeConcini-Goldwater "son of synfuels," every one of the 50 American states is defined as "arid"—"as are Puerto Rico, the Virgin Islands, Guam, American Samoa and the Northern Mariana Islands."

☐ **A study** by the National Highway Traffic Safety Administration has found that drivers' education classes for high school students do not reduce the number of accidents among those who take them. As reported by the *Washington Post,* "These results back controversial studies that show drivers' education not only does not decrease accidents among 16 to 18 year olds, but actually may cause thousands of additional traffic deaths every year." The studies were attacked by "the professional association of drivers' education teachers." Natch.

☐ **Auditoriums are filled** with citizens (many of whom tote bulging portfolios) who are real concerned, even more than normally, about the fate of the American economic machine—and the one thing everybody wants to see is *innovation.* Especially Governor Brown, the forward-thinking, trail-blazing, consciousness-raising Californian who has done quite a bit of innovating on his own, particularly in the rapidly changing and ever-creative category of "campaign promises." And Jerry Brown is once more leading the way to The New: a bureaucracy for developing creative business ideas. (Jerry must have stolen a peek at the script of Mel Brooks's *History of the World: Part II,* 'cause this *must* be in there.) So sit back, relax, open a cool one. . . . California's Industrial Innovation Initiatives are now scheduled to be developed by the California Commission on Industrial Innovation. Bet you never guessed that the future could be so easy.

☐ **Sullen news** continues to emerge from the Motherland. The Britons are suffering through the worst riots since their last soccer game, and Lady Di fell into the barely bearable arms of the Prince of Wales, who hails from a bad neighborhood to simply live in, much less to have to protect a sissy title and all sorts of real property in. But the one really nifty ingenuity to sneak out of Crumpetland is the just-instituted payment policy for 700 building and maintenance tradespersons who "work" for the London Borough of Hackney. The government employees, it seems, were sloughing off. (This is terribly difficult for an American to even conceive of, but England is that country way over past Long Island where the streets are cold and the beer is warm, and it is a very, very different place from anything you've seen in the New World.) So, to solve this uniquely British problem of government goof-offs, the local officialdom handed each registered employee a *bonus* of 250 pounds. This, the advanced thinking went, would "raise morale" and thereby induce ever-greater strides in output per man hour. Some of the British press has condemned this move as the worst sort of idiocy on the part of the politicians, predicting that the principle of rewarding bad work with pay bonuses will backfire. Perhaps. But we mightn't be so hasty. Can you think how the health of our little country would rebound to robust vitality and blood-pumping exuberance if we were to put this incentive structure before the United States Congress for a decade or two?

**—Thomas Winslow Hazlett**

"A SPOT OF LUCK, THAT — FINDING ALL THOSE EMPTY TINS LYIN' ABOUT!"

# BOOKS OF LUDWIG von MISES

**NOW IN PRINT: WITH ANSWERS TO OUR ECONOMIC PROBLEMS**

**THE ANTI-CAPITALISTIC MENTALITY**

An analysis of the illogical "envy and hatred" of those who blame their own failures on the capitalistic system.

**140 pages, paper** **$ 6.00** _____

**BUREAUCRACY**

An explanation of why the inefficiencies of bureaucracy are a necessary corollary of political activities which cannot be limited by market competitions.

**138 pages, hardcover** **$ 7.00** _____

**A CRITIQUE OF INTERVENTIONISM**

A translation of some of Mises' writings of the 1920s explaining how political interferences with the market processes always reduce consumers' satisfaction.

**164 pages, hardcover** **$ 8.95** _____

**ECONOMIC POLICY**

Published posthumously, 1979, these six lectures are a very readable introduction to the basic economic principles expounded by Mises and their relationship to the primary problems of our times.

**115 pages, paper** **$ 4.95** _____

**EPISTEMOLOGICAL PROBLEMS OF ECONOMICS**

A collection of essays that demonstrate the logical legitimacy of economics as a science of human action. This volume provides an insight into Mises' thinking that made possible his many contributions. 1981 reprint.

**262 pages, paper** **$ 7.00** _____
**hardcover** **$20.00** _____

**HUMAN ACTION**

The most rigorously reasoned statement of the case for capitalism. The counterweight of Marx, Keynes and other proponents of government-run economies.

**924 pages, hardcover** **$35.00** _____

**LIBERALISM** (formerly, **THE FREE AND PROSPEROUS COMMONWEALTH**)

A translation of Mises' 1927 presentation of 19th century liberalism principles of limiting government to the protection of lives and peace in the market place with private ownership of the means of production and equal justice under law.

**225 pages, paper** **$ 5.00** _____
**hardcover** **$15.00** _____

**NOTES AND RECOLLECTIONS**

A translation of Mises' personal thoughts and experiences in Europe before he fled to the United States in 1940.

**198 pages, hardcover** **$ 9.95** _____

**OMNIPOTENT GOVERNMENT**

Written during World War II, an analysis of statism in general and German Nazism in particular.

**300 pages, hardcover** **$12.00** _____

**ON THE MANIPULATION OF MONEY AND CREDIT**

A translation of some of Mises' major contributions on money, credit, inflation and the trade cycle.

**350 pages, hardcover** **$15.00** _____

**PLANNING FOR FREEDOM** (ENLARGED)

A collection of essays and addresses exploding fallacies of middle-of-the-road approaches to economics, with an unrivaled paper on *Profit and Loss*.

**292 pages, paper** **$ 6.00** _____

**THEORY AND HISTORY**

A serious and important contribution on the importance of sound ideas for both history and the future of our civilization.

**393 pages, hardcover** **$13.00** _____

**SOCIALISM**

A devastating analysis of the economic basis, moral ethics and alleged inevitability of socialism. In this famous work, Mises reveals the impracticality and impossibility of socialists' dreams. New 1981 edition.

**608 pages (plus index)** **paper** **$ 5.00** _____
**hardcover** **$11.00** _____

**THE THEORY OF MONEY AND CREDIT**

Mises' first major contribution – the application of the "Austrian" subjective theory of value to money, credit and the trade cycle.

**413 pages, hardcover (old ed.)** **$ 8.00** _____
**544 pages, paper (1981 ed.)** **$ 5.00** _____
**hardcover (1981 ed.)** **$11.00** _____

**THE ULTIMATE FOUNDATION OF ECONOMIC SCIENCE**

A concise presentation of the fundamental principles of a free society and refutation of popular fallacies undermining our tranquillity and prosperity.

**165 pages, paper** **$ 5.00** _____
**hardcover** **$15.00** _____

**New York residents, please include appropriate sales tax** . . . . . _____

**ON ALL U.S. ORDERS–**
**Toward postage and handling** . . . . . **$1.50**
**(Foreign postage extra)** Re

**TOTAL** **(U.S. funds)** **$**_____

ORDER FROM:

FMB FREE MARKET BOOKS
P. O. Box 298
Dobbs Ferry, N.Y. 10522

# trends

## Offshore Oil: Watt's the News?

At a House subcommittee hearing on offshore oil drilling in April, Interior Secretary James Watt once again outraged environmentalists: "Our Interior Department scientists report that there have been no known significant long-term damages to the marine environment" as a result of either the 1969 Santa Barbara oil spill or the 1980 blowout at Ixtoc, Mexico. Watt's views on the subject are reinforced by a 1974 study by the Gulf Universities Research Consortium, which found that 30 years of oil drilling had done no damage to the environment of the Gulf of Mexico.

That was not the last word on the subject, however. In June the National Academy of Sciences' National Research Council issued a cautious report concluding that the subject is still in dispute among scientists and urging further research. But the most intriguing report was yet to come.

In July the wire services reported the findings of marine biologist Robert Spies of Lawrence Livermore National Laboratory. For five years Spies has been studying the effects on marine organisms of prolonged low-level (four to five parts per billion) exposure to oil. His study area is the Isla Vista seep, a 1,000-square-meter area near Santa Barbara in which 50-75 barrels of crude oil per day seep out naturally from the seabed.

What Spies has found is that marine life is actually more abundant in the seep area than in oil-free areas a mile away. Despite the presence of an oil slick and floating tar balls on the surface, fish, shellfish, starfish, worms, and other bottom-dwellers are thriving. What seems to be occurring, Spies concludes, is that bacterial colonies above the oil vents are ingesting and directly metabolizing the oil. The bacteria are eaten by bottom-dwelling marine worms, which in turn are eaten by starfish, crabs, and bottom-feeding fish.

In addition, Spies believes that many of the organisms have adapted biochemically. Those in the seep area have much higher-than-normal levels of an enzyme known as "mixed function oxidase," which breaks the oil down into harmless compounds. Most marine animals possess the enzyme, but it apparently must be "turned on" by the presence of petroleum or similar hydrocarbons.

Thus, there may be grounds for Secretary Watt to return to Congress with the message that oil is actually good for the marine environment. We'd hate to be around for the howls that would follow that one!

## Phone Deregulation on the Line

A decade of decisions by the Federal Communications Commission (FCC) has opened up both the long-distance and the telephone equipment markets to competition. Most recently, the FCC in June extended its previous ruling allowing the resale and sharing of leased telephone circuits to all such services, including Wide Area Telecommunications Service (the familiar WATS lines). Already there are more than 30 companies in the discount long-distance market, and they have captured four percent of the business from AT&T. And about 30 more firms have applied to the FCC to enter the resale business.

How far telephone deregulation will go, however, is yet to be decided. As noted in these pages in April (see "Dial 'D' for Deregulation") three powerful institutions are attempting to have the deciding say-so: the FCC, the Justice Department, and Congress. The FCC's Computer Inquiry II deregulation plan is scheduled to take effect on March 1, 1982. It would allow AT&T to set up an unregulated subsidiary to offer advanced forms of computer-aided communications and informations services—subject to competition in the marketplace. But there's the rub: given AT&T's huge assets and decades of protection from competition, many would-be competitors fear that Ma Bell could use profits from its monopoly to subsidize losses on competitive services. Thus, the FCC's plan is under legal challenge in the courts.

For that reason, most advocates of deregulation favor congressional action, which would be much less vulnerable to legal attack than would FCC administrative action. In July the Senate Commerce Committee overwhelmingly approved a deregulation bill similar to the FCC plan. After lobbying from various competitors, the committee included amendments aimed at (1) ensuring real independence of the unregulated AT&T subsidiary, (2) phasing in competition on long-distance routes (that is, AT&T service on a route would be deregulated only when competitors emerged), and (3) sharply restricting AT&T's ability to compete with newspapers in teletext and videotext services. The bill sailed through the committee after a strong endorsement by the Reagan administration and may have passed the full Senate by the time you read this. House action is expected this fall.

Whether the Justice Department will have any say at all is now in doubt. The administration has told Congress that it will drop the Justice Department's massive antitrust suit against AT&T if the deregulation bill includes provisions (1) requiring the company "to meet a competitive market test" in selling equipment from its Western Electric subsidiary to competitors and to the 23 Bell System operating companies and (2) strengthening the rights of competitors to "equal treatment" in connecting with local telephone networks. The antitrust case had sought to divest AT&T of Western Electric altogether and to split AT&T into several independent companies.

## Excising the Teeth from the Big = Bad Wolf

As reported here in April, even liberal-left economists like Lester Thurow now concede that antitrust is a flop. Over the past 20 years, market-oriented economists have built up an impressive case against the idea that government can or should attempt to shape competition. Today, that case finds two of its leading advocates in the men responsible for shaping federal antitrust policy: Atty. Gen. William French Smith and Justice Department antitrust chief William Baxter.

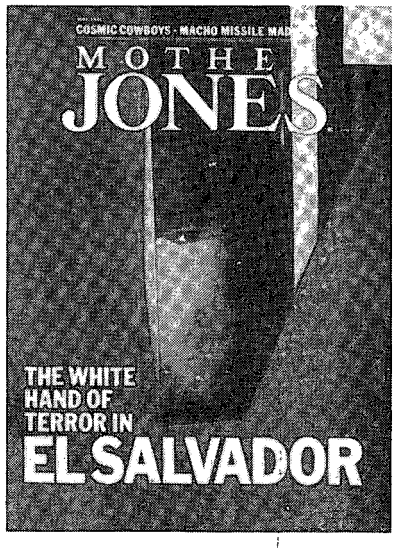
In a speech to the District of Columbia Bar Association, Smith alluded to several of the economists' main findings. For one thing, "We must recognize that bigness in business does not necessarily mean badness and that success should not be automatically suspect." Frequently, firms have large market shares because they do a better job. Yet much recent antitrust activity—for example, the Justice Department's merger guidelines and the Federal Trade Commission's

# Love, Hate & Mother Jones

**"Sleazy"**
– A senior Reagan appointee to the CIA

**A "rallying cry ... above the mellowspeak"**
– *Time* Magazine

**Publisher of "lies, half-truths and distortions"**
– A top Ford Motor executive, after our award-winning story that forced the recall of two million Pintos




**"Inviting graphics, wry humor and colorful writing"**
– *Los Angeles Times*

**"Tasteless"**
– *Los Angeles Herald Examiner*

**"Outstanding Achievement for Public Service"**
– Columbia University School of Journalism National Magazine Award

Find out why some love us while others hate us. Then decide for yourself.

It costs you nothing to try **Mother Jones.** Just return the coupon today and we'll send you your first issue **free.**

## FREE ISSUE!

Send me a free copy of **Mother Jones.** If I like the magazine I will pay you $12 (a 33% savings off the regular price) for a full year—nine more issues. If I decide not to subscribe for any reason, I'll just mark "cancel" on the bill and that's it—no further obligation.

*Name* _____

*Address* _____

*City* _____ *State* _____ *Zip* _____

*Add $3 per year, Canada; $4 per year foreign.*

MOTHER JONES,
Subscription Department,
1886 Haymarket Square,
Marion, OH 43305

DGREPF

"shared monopoly" prosecution of cereal makers—has *presumed* that large market shares are the result of unfair "market power" that should be curbed by government.

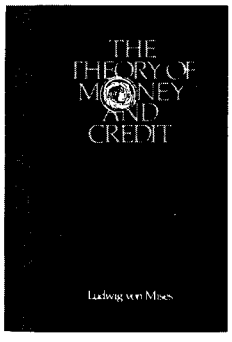
"Some have argued that competition is synonymous with a large number of competitors," Smith continued. "Economic reality, however, is more complex. In some industries [car polish, for example] competition yields a large number of competitors—in others [cars, for example], only a few—depending upon the economies of scale, distribution costs, and other factors."

The results of this new antitrust philosophy will soon be quite evident. The Justice Department has withdrawn its restrictive 1968 merger guidelines and plans to replace them with much less stringent ones. Baxter plans to have the department intervene extensively in private antitrust suits (which make up 97 percent of all antitrust cases) on the side of the defendant, in hopes of making new case law reflecting the most up-to-date economic understanding. And there's a good chance that the FTC's antitrust bureau, which many, including David Stockman, consider duplicative of the Justice Department's antitrust division, will be abolished.

The benefits from these changes could be great. Freed of ill-founded restraints on vigorous competitiveness, US firms will be better equipped to take on their Japanese and German competition. As UCLA Professor J. Fred Weston points out, "The markets for our major industries are international," and it makes little sense for US firms to be forced to play the game with one hand tied behind their back.

Other benefits are less easy to predict but nonetheless real. "A wide pattern of business activity gets directed into less efficient modes," says Baxter, due to doubts about running afoul of antitrust laws. Removal of that threat should lead to renewed vigor and productivity for the US economy.


LibertyPress
LibertyClassics




The Theory of Money and Credit

By Ludwig von Mises

In this, his first major work (1912), Ludwig von Mises rejected mechanistic monetary theories employing "velocities of circulation" and "equations of exchange." He based his new theory of money and credit on microeconomic analysis and the application of marginal utility to the supply and demand for money. His new insights led the Austrian School to develop the monetary theory of the trade cycle and to reject the State theory of money. On this view, metallic commodity money and free banking are required to stop recurrent inflation followed by inevitable monetary and economic collapse.

In the words of Nobel Laureate F.A. Hayek, *"The Theory of Money and Credit* is much more than merely a theory of money . . . it also made its contribution to the basic problems of value and price." Hardcover $11.00, Softcover $5.00.

Prepayment is required on all orders not for resale. We pay postage on prepaid orders. Please allow 4 to 6 weeks for delivery. *All* orders from outside the United States *must* be prepaid *in U.S. dollars*. To order, or for a copy of our catalogue, write:
Liberty*Press*/Liberty*Classics*
7440 North Shadeland, Dept. J51
Indianapolis, IN 46250


## Scuttle the Corporate Tax?

Getting rid of the corporate income tax may be an idea whose time has come. That's not what we thought just six months ago when Joe Cobb, research director of the Washington-based Council for a Competitive Economy, first published a proposal on the idea ("Repeal the Corporation Income Tax"). But since then the political winds appear to have shifted dramatically.

Part of the credit must go to mainstream economists who have become more forthright in pointing out the defects of the corporate income tax. Harvard's Dale Jorgenson points out that just since 1977 the effective rate—that is, the average rate actually paid by corporations after all deductions—has jumped from 13.5 percent to 25 percent. That kind of change seriously restricts new investment in plant and equipment.

Milton Friedman has noted for years that corporations don't actually pay income taxes; instead, they build the tax into product prices. Even liberal-left economist Lester Thurow agrees on this point. "The corporate income tax is basically a sales tax," he wrote in June. "To eliminate the corporate income tax is ultimately to give a tax break to the average American consumer."

Thurow is not alone in favoring abolition of this tax. Norman Ture, Treasury under-secretary for tax and economic affairs, recently told *Business Week*, "There's a huge philosophical sentiment to get the corporate tax out of the system." The Reagan administration, says Ture, plans to propose a direct cut in corporate tax rates as a follow-on to its present accelerated-depreciation pro-

gram. Meanwhile, Democrats in Congress took the lead on that front, proposing to cut the top corporate rate from the present 46 percent down to 34 percent over a five-year period.

Eliminating the corporate income tax would not drastically affect the federal government's revenues. Back in 1960 the corporate tax brought in more than 23 percent of the government's take. Today that figure has dropped to only 12.4 percent, and once the just-passed changes in depreciation go into effect, corporate income tax receipts will be bringing in only 7.7 percent by 1986. Modest spending cutbacks would enable Uncle Sam to get along just fine without this added pound of flesh.

## Gold Backing

The idea of gold-based currency keeps picking up support. The latest endorsement came in the form of a full-page editorial in *Barron's* (June 15). Editors Robert Bleiberg and James Grant announced that it was time to take a stand. "Rarely in the past 15 years has the case for convertible money looked better or fiat money looked worse.... An oddity of the debate is that a gold standard is [considered] impractical or quixotic, while unsecured paper is somehow seen as down to earth. In the light of the evidence, the presumption, we submit, should be the other way around."

A week later *Time* weighed in with a two-page spread on the back-to-gold ferment, headlined "A New Cry: Bring Back Gold." While maintaining a skeptical tone about the idea's feasibility, the article nonetheless acknowledged the growing appeal of the idea and the increasing political support for some sort of gold standard.

## Nuclear Revisionism

Everybody knows that the reason nuclear power has gotten as far as it has is massive federal subsidies. Right? Well, not quite. Much has been made of a Carter administration study prepared by economist Joseph Bowring of the Department of Energy. According to Bowring's draft, over a 30-year period the government has spent some $40 billion subsidizing nuclear power. Bowring calculated that this had reduced the cost of nuclear-generated electricity by 1.6¢-2.5¢ per kilowatt-hour (kwh), cutting its cost to consumers in half.

Since last fall, the reviewers' comments on Bowring's draft have come in, and recently DOE released the final version. According to the revised report, the actual subsidy was $12.8 billion, not $40 billion, resulting in an electricity cost reduction of only 0.47¢/kwh.

Why the difference? Bowring had included substantially more in research and development subsidies than the final draft did—such things as $8 billion for researching fusion and breeder reactors (which, as future technologies, have nothing to do with today's light-water reactors or their cost of producing electricity), $1.9 billion in military R&D, $2.5 billion in pre-1966 biological and medical research that is (arguably) primarily military, and another $1.3 billion in safety research (which should have been left in). Also included by Bowring and excluded by DOE was $5.5 billion in subsidies for uranium sales promotion and enrichment plants, some of which is military and much of which subsidizes customers abroad.

The Atomic Industrial Forum, a trade group, has claimed that over the past 30 years the feds have heavily subsidized nuclear's competitors. Based on a study by Battelle Memorial Institute, AIF claims that $80 billion has gone to the oil industry, $17 billion to hydropower, $7 billion to coal, and $15 billion to natural gas. In fact, however, most of the oil and gas dollars do not represent subsidies at all. Instead, they reflect allowances for deducting from taxable income such costs as depletion of reserves (analogous to a depreciation write-off) and exemption of certain types of oil from price controls.

Corrected for these errors, the true subsidy figures become: oil, $10.6 billion; hydro, $17 billion; coal, $7 billion; and natural gas, zero. Altogether, nonnuclear energy subsidies have totaled $34.6 billion—still more than nuclear, but a far cry from what AIF claimed.

In addition, the government has committed $88 billion in loan guarantees for synfuels (oil companies, again) and is shelling out close to $2 billion a year in payments to coal miners for disabilities due to black lung disease. So while subsidies are wrong, per se, it simply isn't the case that nuclear power has been singled out for unique subsidization by the government.

One other nuclear myth deserves a decent burial. Remember a few years ago when one of the main arguments against nuclear plants was that uranium was being used up and that we'd soon be stuck with a bunch of costly white elephants? A detailed analysis of supply and demand


The Discussion Club of St. Louis
Presents Its

ANNUAL SEMINAR
*Featuring*
ROBERT LEFEVRE

THE ANATOMY OF LAW AND ORDER
CAN THE NEW ADMINISTRATION PROVIDE IT?

October 2 & 3, 1981 Breckenridge Hotel
$60.00 per person Clayton, MO
$70.00 after Sept. 18
*Special rates for students, faculty and clergy.*

For information contact H. F. Langenberg, 300 North Broadway, St. Louis, MO 63102, or call (314) 342-4052 or (314) 361-1232.

I'TS EASY TO
Be An Ordained MINISTER
*and enjoy all the*
⚜ PRIVILEGES
⚜ PERQUISITES
⚜ PLEASURES &
⚜ PREROGATIVES
*of the clergy*
UNITED WORLD ASSEMBLY
has openings for ministers (male, female). No cost for ordination.
P.O. Box 224, Beverly Hills, CA 90213

GERARD K. O'NEILL
AUTHOR OF THE GROUND-BREAKING BOOK, "THE HIGH FRONTIER" IS BACK WITH:
2081:
A HOPEFUL VIEW OF THE HUMAN FUTURE
A model of the world of 2081 and an investigation of the technologies—computers, automation, space colonization, energy production and communications—that will lead us there.
$13.95 ☐

OTHER BOOKS ON FUTURISM INCLUDE:

YOUR NEXT FIFTY YEARS
by Robert Prehoda $2.50 ☐

THE NEXT 200 YEARS
BY Herman Kahn $4.95 ☐

THE NEXT TEN THOUSAND YEARS
by Adrian Berry $2.25 ☐

TOTAL ENCLOSED:_____
(NO SALES TAX & NO SHIPPING CHARGE)

NAME .....
ADDRESS .....
CITY.....STATE . . . ZIP . . . . .

FREE CATALOG AVAILABLE
HIGH-TECH BOOKS
5047 SW 26th Dr., Portland, OR 97201

trends by Thomas L. Neff and Henry D. Jacoby of the Massachusetts Institute of Technology Energy Laboratory finds that uranium is in ample supply, thanks to both rapid increases in production and a reduced rate of new plant construction (*Technology Review,* Jan.). In fact, annual world uranium production capacity is expected to be *double* annual consumption by 1990. This supply-demand imbalance is expected to result in a downward trend in uranium prices over the next decade and make unworkable any sort of OPEC-style cartelization by producers.

The abundance of uranium knocks another prop out from under the argument that the government must subsidize breeder reactors if they are to make it. Perhaps someday breeders will be needed, and if so private industry will have plenty of incentive to develop them. The House Science and Technology Committee voted in May to kill the $3-billion Clinch River breeder program—a boondoggle denounced by (among others) the National Taxpayers Union, the General Accounting Office, the *Wall Street Journal,* Dr. Edward Teller, and David Stockman. (Unfortunately, on July 24 the full House voted 206-to-186 to include funding for Clinch River in this year's public works appropriation.)

## Submarines Vulnerable?

Advocates of economies in defense—for example, those who argue against a "triad" of ICBMs, submarine-launched missiles, and bombers—inevitably rely on the assumption that US strategic submarine forces are invulnerable. Unfortunately, that assumption is open to serious question.

There are several possible ways in which today's nuclear submarines could be detected, given sufficient advances in sensing technology. One, of course, is acoustic: listening for the low-frequency signal produced by the sub's long propeller shaft. Sufficiently advanced technology could identify the acoustic "signature" of each individual vessel. (The US government already possesses the capacity to thus identify individual Soviet surface ships and diesel-powered submarines.)

But more exotic detection techniques are possible. According to *Aviation Week* (July 13), the US Navy has studies under way seeking to determine whether the Soviets have the ability to detect (*a*) chemicals in the ocean from the anti-corrosion material used on submarine hulls, (*b*) radioactive materials produced by the interaction of reactor-produced neutrons and sodium in ocean water, or (*c*) free hydrogen in ocean water produced by the exchange discharge of hydrogen ions. Any of these techniques, if perfected, could permit the detection and tracking of missile-firing submarines. And that, in turn, would make them vulnerable to a preemptive strike by Soviet attack subs (which outnumber US ballistic missile subs by four to one).

Realism in defense includes recognition of the reality that there is no such thing as an "invulnerable" weapons system. The French learned this lesson with the Maginot Line at the outset of World War II. It's a lesson we forget at our own peril.

## Trucking Freedom: Too Much for Reagan?

Ironically, just as the beneficial effects of trucking deregulation are being felt, the new Reagan appointee to head the Interstate Commerce Commission (ICC) says he wants to slow down the ICC's deregulation of that industry. Even more ominous is the fact that the antideregulation Teamsters Union applauds Reagan's choice—public utility and transportation regulatory lawyer Reese Taylor. Not surprisingly, Reagan himself, during the presidential campaign, called Carter's effective trucking deregulation program "ill-conceived."

And yet, the results of last year's deregulation moves contradict Reagan. Rates have become lower, trucking operators have increased in number, service has improved, and the Teamsters Union has even made concessions on work rules. A Boston management consulting firm, Harbridge House, discovered in a recent poll of 2,000 of the largest manufacturers (with 10 percent responding) that 65 percent of the firms had obtained lower truck rates. Savings in the last 12 months as a result of deregulation are estimated at $1.8 million on the average for each manufacturer.

And because many of the new truckers are nonunionized, they are able to offer competitive bids. As a result, Teamster locals working for Yellow Freight managed to get the union to accept flexible work weeks, such that five-day work weeks could include Saturdays and Sundays without those days being considered overtime. According to the *Wall Street Journal,* some Teamster locals are seeking union OK to accept pay cuts to stay competitive. The number of for-hire truckers went up from some 17,000 a year ago, to 18,000 currently.

As for bus deregulation, the ICC's Taylor doesn't believe that the bus companies' financial difficulties can be blamed on "undue regulatory burdens." He also intends to protect special operations by maintaining the strength of "appropriate" controls on entry.

Acting Deputy Assistant Attorney General Ronald Carr, however, in testimony before the House subcommittee on surface transportation, argued that neither House bill on intercity bus deregulation (H.R. 3662 and 3663) goes far enough. Carr noted that it is the present regulatory system that keeps the industry "highly concentrated," such that Greyhound and Trailways account for some 62 percent of total industry revenues. He further pointed out the anomaly of allowing competing bus companies to fix rates and fares collectively, with antitrust immunity, in such a regulated industry.

Despite all this evidence—empirical and theoretical—in favor of deregulation, however, it seems that political considerations have won out in Reagan's choice of the ICC chief.

## Enterprise Zones on the Map

A revised 1981 Urban Jobs and Enterprise Zone Act (Trends, Oct. 1980) was introduced in both houses of Congress earlier this session. The new version, while still a watered-down adaptation of the original concept as introduced by policy analyst Stuart Butler of the Heritage Foundation in 1979, establishes more federal tax incentives for small businesses but continues to restrict eligibility to areas characterized by "pervasive poverty, unemployment and general distress." Thus, to obtain tax incentives, businesses must show that at least 40 percent of their new employees are CETA-eligible workers. Moreover, the federal government is encouraged to take positive steps in the zones instead of leaving businesses free to fail or prosper, such as expediting federal housing, financial assistance, and employee training programs within the zone.

As urban economist Butler explained in "Salvaging Our Cities" (Apr. 1980), to be truly revitalizing, a true enterprise zone should include as basic features:

- the elimination of virtually all building and planning controls
- the sale of all city-owned land within the zone

• a reduction in or total exemption from business property taxes
• the suspension of all price, wage, and rent controls in the zone
• the absence of any government subsidy or assistance to businesses operating within the zone
• a set time table for the conditions mentioned as well as a guarantee that tax laws would not be altered unfavorably within that time limit.

Despite its flaws, the 1981 bill had attracted the support of 61 House cosponsors and 16 Senate cosponsors at press time, as well as the approval of the National Urban League, the NAACP, and the National League of Cities. It is sponsored in the House by Rep. Jack Kemp (R-N.Y.) and Robert Garcia (D-N.Y.) and in the Senate by Sen. John Chafee (R-R.I.) and Sen. Rudy Boschwitz (R-Minn.).

Meanwhile, states are beginning to adopt enterprise zone legislation of their own. The American Legislative Exchange Council reports that bills of this sort have been enacted in Connecticut, Delaware, Florida, Illinois, Indiana, Maryland, Oregon, and Pennsylvania, and 71 other bills are pending in state legislatures. Few, however, come close to the original laissez-faire concept. Connecticut's, for example, while cutting its corporate income tax in half for 10 years and slashing property taxes by 80 percent for five years, also includes taxpayer-funded subsidies for job creation and training programs.

Truer to form is the Illinois version. Virtually unique among enacted programs, it suspends zoning and building code requirements, rent controls, and licensing laws within the enterprise zones, as well as cutting taxes. In addition, it requires the sale of public land at auction and specifies that all federal programs (such as Medicaid) in which the state has spending discretion be operated at minimum levels. The bill had initially included a repeal of state minimum wage requirements, but that provision was omitted after heavy union lobbying.

## Farm Price Supports: No Peanuts

President Reagan will have had the chance, by the time this issue gets into your hands, to prove whether his commitment to the free market is real or rhetorical. By then, Congress will have considered the Reagan farm bill proposals urging cuts in government subsidies to agricultural commodities and will have proposed its own version. And if Congress buckles under to the lobbyists, Reagan has said he will veto a less than satisfactory bill.

The first crop scheduled for consideration is goober peas. As it is now, the Agriculture Department sets a limit on the number of acres each of the country's 53,000 peanut farmers can plant each season. Why do peanut farmers take this? Because the allotment plan keeps the price of peanuts up. Furthermore, if the market price for peanuts falls below a set level—currently, $450 a ton—the government buys up the crop at that price. This subsidy has cost taxpayers an average of $50 million a year for the last decade.

Already the administration's call for an end to the peanut allotment system has drawn the ire of powerful—and supposedly pro-free-market—Jesse Helms (R-N.C.). Helms was a major defender of the tobacco interests when that farm group's subsidy (averaging $1.3 million annually in the last 10 years) was up for consideration recently.

There's also the sugar lobby, out to protect *its* share of taxpayer subsidies. The price of sugar is kept artificially high not only by government price supports but also by the punishing duties imposed on sugar imported from abroad. Grain and cotton farmers, too, enjoy a slice of the tax pie, and the administration proposal would completely end payments to these two groups. However, members of Congress have already started making noises about *increasing* target price levels for grain and cotton in the next fiscal year.

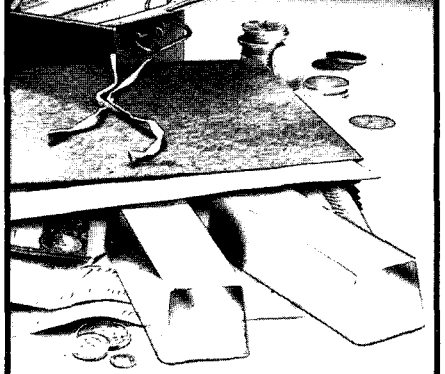
And the biggest boondoggle of them all—dairy price supports (Trends, Jan.)—will probably be the most difficult to alter. For over 32 years now the Agriculture Department has bought butter, cheese, and nonfat dry milk from farmers unable to find market buyers at the government's high price. This year, the amount of milk products put into storage *each week* totals some 45 million pounds.

The dairy price-support system will cost taxpayers $2.1 billion this fiscal year, thanks to the lobbying efforts of the National Milk Producers Federation. Price-support levels are set at 80 percent of a 1914 index (called parity); Reagan would push this level down to 70 percent or less. Because the price-support payments are so generous, farmers last year *added* milk cows to their herds after 27 year of diminishing herd sizes.

Land O' Lakes, Inc., reports *Time* magazine, has found an even more clever


NORTHWEST TERRITORIES asks the thoughtful investor:

"Do precious metals belong in your [illegible]folio?"



Americans are worried about their investments. Stocks, bonds, even high-yield certificates have become easy prey for the talons of inflation.

That's why more and more thoughtful investors are putting part of their money into gold and silver. Over the years precious metals have stubbornly held their value—especially during periods of rampant inflation.

Besides, gold and silver are uniformly priced and valued all over the world—making it easy to buy here and sell there.

Gold and silver are portable—easy to store and to transport.

And, they are highly liquid—making them easy to sell at any time.

Which adds up to a nearly perfect investment.

**Get our free information kit: "Strength In A Changing Market." Absolutely no obligation! Act now.**

NORTHWEST TERRITORIES GOLD & SILVER EXCHANGE CORP. T.M.

**WRITE OR CALL (TOLL-FREE)**

**1-800-328-4448,**

In MN (612) 338-5710.

Gentlemen: Please send me your introductory information kit: "Strength In A Changing Market."

Name _____

Address _____

City _____ State _____ Zip _____

Send to: **Northwest Territories Gold & Silver Exchange Corp.** 400 Marquette Avenue, Suite 260 Minneapolis, MN 55401

way to use the price-support program. It sells its new cheddar cheese to the government as a surplus product; the government pays for the costs of transporting and storing the surplus cheese. Several months later, Land O' Lakes buys the cheese back at a mere 10 percent mark-up and, viola, *aged* cheddar cheese goes to the market.

If Reagan sticks to his guns on the issue of farm price supports, we may indeed be seeing the beginnings of a dismantling of Leviathan. If not, then it's business as usual—and we don't mean free-market business.

## Mini-Government for Mini-Car Makers

The Japanese, it seems, are as efficient in their government as they are in business. Acording to William Chapman in the *Los Angeles Times,* a firm limit has been in effect since 1967 on the exact number of employees the government is allowed to hire. The Administrative Management Agency, Japan's version of the Office of Management and Budget, determines each year which government agencies get what share of the 506,571 government employees allowable.

This limit makes the ratio of Japanese national and local government employees to the general population the lowest among the more developed nations. The Japanese government, to be specific, employs 45 people for every 1,000 citizens; Britain employs 109, France 83, the United States 82, and West Germany 76. One major reason for this low ratio is, of course, the fact that Japan's national defense is subsidized by the United States. Thus, the Japanese government employs 2.5 defense employees for each 1,000 citizens, while the United States tops the list with 13.4, followed by West Germany with 10.7, and France with 8.4.

But in addition, many unofficial neighborhood groups carry out the minor tasks that are often the province of local government in other countries—such as notifying residents of garbage pick-up changes, Chapman says. Government costs are further held down by the practice—common also in other Asian countries—of having between 40 and 50 pupils per classroom in elementary schools, as well as the absence of extensive, Western-style welfare programs. The comparatively low cost of government keeps Japan's tax rate substantially lower than in the United States and Western Europe.

With all these advantages, it is no wonder that there is absolutely no loophole in the 506,571-employee ceiling. That number has not changed for 14 years, and trends indicate that it won't—at least not in the near future.

## Restoring Restitution

A San Francisco superior court judge has agreed to the offer of the mother of a juvenile murderer to pay restitution to the victim's family. Although the amount involved ($851 for funeral expenses) is small, the principle is important. This is the first California case in which restitution has been used for a serious crime against a person (though it is not uncommon in cases involving crimes against property).

Other such cases are few and far between. In 1972 Maryland Judge George B. Rasin sentenced a murderer to a life term, eligible for parole in 15 years, with the proviso that when paroled he must pay 40 percent of his income for the rest of his life to the sons of the woman he killed. In 1973 Miami Judge Dan Satin put a 19-year-old murderer on partial probation so that he could support his victim's widow and five children. And in 1977 Sebring, Florida Judge Clifton Kelley sentenced a construction worker to pay $5,000 or provide a new eye to a man whose eye he had put out.

The San Francisco case is complicated by the fact that the murderer was a juvenile, which is why it is the mother who is paying the restitution. The 15-year-old girl has been committed to the California Youth Authority for up to eight years and was ordered by Judge J.


# Gold & Silver

## You *know* why . . . But *Who*?

R. W. Bradford & Company has served the hard money investor with same day shipment, concise market reports, ***guaranteed*** delivery and authenticity, and ***lowest prices.*** And we've been doing it since 1971. Isn't it time you began to deal with R. W. Bradford & Company?

Check **RWB** out. Call for our quotes, and compare **RWB** prices with those of your present dealer. You will find out how much you can save by dealing with **RWB.**

Or fill out the coupon to the right for a sample of our newsletter and our ***"Gold/Silver Information Packet."***

**R. W. Bradford & Company**
P. O. Box 1167
Port Townsend, WA 98368
(206) 385-5097

Please send me your ***"Gold/Silver Packet"*** and a copy of your most recent newsletter.

name

street

city state zip

Anthony Kline to write to the victim's mother explaining why the restitution is being paid. Whether parents of a 15-year-old should be held responsible for her crimes is open to debate. But extending restitution to crimes against persons looks to us like a step in the right direction.

## Minimum Wage Means Minimum Work for Some

Several bills now facing Congress would allow employers to hire teenagers at pay scales lower than the minimum wage, thus opening up new job opportunities for unemployed teenagers. And surprisingly, according to a Data Black Public Polls survey, blacks are now split evenly on a two-tiered minimum wage: 37 percent of those polled favor a lower minimum wage for young people, while 36 percent oppose it. Could these facts possibly spell the gradual demise of a minimum wage?

Not if the Minimum Wage Study Commission has its way. The commission was set up by Congress in 1977 to look into the issue of minimum wage, and it released its majority report earlier this year, nixing the two-tiered minimum wage—let alone the abolition of minimum wage itself! According to Commissioner S. Warne Robinson, who penned a minority report, the "majority's near-total disregard for facts became apparent as the results of our economic research began taking shape. With the overwhelming bulk of our evidence from these studies showing that the minimum wage hurts far more poor families than it helps, the majority proclaimed the view that Congress did not really expect the Commission to base its recommendations on the facts anyway."

When the minimum wage was first set in 1938, it covered 43.4 percent of employees and was set at 25¢. Today, it covers 83.8 percent of all nonsupervisory, nonagricultural employees and is set at $3.35. Obviously, some employees benefit by the existence of minimum-wage laws, because *their* salaries are increased. What is less obvious, however, is the fact that other workers' services are then priced out of the market—witness the disappearance of ushers in movie theatres.

Lower-paid jobs also serve as stepping stones to higher positions, as the foot in the door of the job market. Some workers accept lower wages because they view the position as a kind of on-the-job training. With the imposition of a minimum wage, these job opportunities have become scarcer—particularly for black teenagers. Unemployment among blacks between the ages of 16 and 17 has risen to 37.7 percent (it is at 18.5 percent for whites of the same age).

Some proponents of minimum-wage laws say that the high unemployment rate is due to the post-World War II baby boom, as those babies are now teenagers. But the basic law of supply and demand tells us that, with an increase in the supply of labor, wages would naturally be forced downward. Since the minimum wage does not allow this downward shift to occur, an increase in the quantity of labor demanded cannot also occur.

Some people argue that with a two-tiered minimum-wage scale youths would take jobs away from older people. But according to Heritage Foundation policy analyst Peter Germanis, a University of Michigan study has shown that 9 out of 10 jobs created for teenagers would not come at the expense of adults. In another study, prepared for the Minimum Wage Study Commission, Michigan State University economist Daniel Hamermesh showed that a 75 percent differential between teenage and adult minimum wages would increase teenage employment by as many as 250,000 jobs.

That is certainly a figure one should take very seriously. It is unfortunate that the Minimum Wage Study Commission did not.

## Uganda and Italy: Less Intervention

As the world continues to seesaw between government control and the free market, two unlikely nations seem to be reluctantly moving toward the latter.

In Uganda, President Milton Obote, an avowed socialist, recently told his 156-member parliament that price controls on most food and essential commodities would be lifted in order to ease shortages and that the shilling would be floated so that the exchange rate would be decided "by supply and demand." Obote has only stuck a very tentative toe in the water, however; he also raised the prices government would pay producers of export crops and is promoting the sale of government bonds and treasury bills.


# ¡Speak Spanish like a diplomat!

What sort of people need to learn a foreign language as quickly and effectively as possible? *Foreign Service personnel*, that's who. Members of America's diplomatic corps are assigned to U.S. embassies abroad, where they must be able to converse fluently in every situation.

Now *you* can learn to speak Spanish just as these diplomatic personnel do—with the Foreign Service Institute's Programmatic Spanish Course.

The U.S. Department of State has spent tens of thousands of dollars developing this course. It's by far the most effective way to learn Spanish at your own convenience and at your own pace.

The Programmatic Spanish Course consists of a series of tape cassettes and an accompanying textbook. You simply follow the spoken and written instructions, listening and repeating. By the end of the course, you'll find yourself learning and speaking entirely in Spanish!

**This course turns your cassette player into a "teaching machine."** With its unique "programmatic" learning method, you set your own pace—testing yourself, correcting errors, reinforcing accurate responses.

The FSI's Programmatic Spanish Course comes in two volumes. You may order one or both courses:

☐ Volume I, Basic.
(12 cassettes, 17 hours), instructor's manual and 464-page text, $115

☐ Volume II, Intermediate.
(8 cassettes, 11½ hours), instructor's manual and 614 page text, $98

(New York residents add sales tax.)

Your cassettes are shipped to you in handsome library binders.

**TO ORDER, JUST CLIP THIS AD and mail with your name and address, and a check or money order.** Or, charge to your credit card (American Express, VISA, Master Charge, Diners Club) by enclosing card number, expiration date, and your signature.

**The Foreign Service Institute's Spanish course is unconditionally guaranteed.** Try it for three weeks. If you're not convinced it's the fastest, easiest, most painless way to learn Spanish, return it and we'll refund every penny you paid! Order today!

Many other FSI language courses also available. Write us.

**Audio-Forum**
**Dept. M–49**
**145 East 49th St.**
**New York, N.Y. 10017**
**(212)753-1783**

AUDIO-FORUM®

While Obote predicted that Uganda's balance-of-payments deficit would be reduced by about $53 million in fiscal year 1981-82 (from $200 million to $147 million), he also announced grants and loans from the International Monetary Fund and the World Bank totaling $267 million—most of which will, of course, become another liability to Uganda's taxpayers.

In Italy, meanwhile, Gianni De Michelis, Socialist minister for state participations, is advocating the sale of certain government companies to the private sector, as well as the sale of shares in state-controlled banks and companies on the stock market. De Michelis's denationalization proposals are especially interesting in the light of France's new socialist government under Francois Mitterrand, who has been pushing for more industrial nationalization in his country.

De Michelis has just completed a plan to return the government's remaining 21 percent holding in Montedison, a large chemical manufacturer with a $5 billion debt, to four private investors. While the Communists have attacked the program of denationalization for ideological reasons, the Christian Democrats have perhaps best expressed what the turnover will mean to the government: loss of patronage and votes.

## Milestones

• *Vanuatu to Join UN.* Foreign Minister Barak Sope is representing the socialist government of Walter Lini (see "Wun Niu Fela Kuntri," Sept. 1980) in Vanuatu's bid for membership in the United Nations. Sopē says that UN membership will help unify the New Hebrideans but admits also that it will expedite such things as "economic aid" from the UN. Vanuatu has already received some $735,000 from the UN Development Program.

• *Canada Air Deregulation.* The Economic Council of Canada, a 25-member government advisory body, has issued a paper recommending a "loosening of price and entry controls on the Canadian airline industry which would result in a wider choice of fares and quality of service and in greater efficiency." US airline deregulation has apparently whetted the Canadian appetite for similar consumer benefits, although both the Air Transport Association of Canada and the president of government-owned Air Canada are fighting deregulation moves.

• *Connecticut Pot Luck.* The state of Connecticut has passed a bill allowing doctors to prescribe marijuana cigarettes to glaucoma and cancer victims.

• *Shoe Curbs Shelved.* President Reagan has lifted the restrictions placed by Carter in 1977 on the import of non-rubber shoes from Taiwan and South Korea, to much gnashing of teeth from members of Congress from shoe-producing states and from the American Footwear Industries Association.

• *State Censors Let Go.* Maryland's 65-year-old state censor board, the last in the country, has been officially disbanded under a new state sunset law. The board had cost nearly $100,000 a year to operate. A 21-year member of the board, 71-year-old Mary Avara, staunchly defended its existence, despite such sacrifices as the fact that she "had to stop eating a lot of food because of what they do with it in these movies."

• *Cable Censorship.* A *New York Times* editorial recently urged New York legislators not to pass legislation authorizing cable TV operators to censor offensive shows on public access channels. A better solution, the editorial suggested, would be to air the clearly offensive and the innocuous on two separate channels, inform the viewers of such, and provide lock-out boxes.

• *Handgun Ban Challenged.* The Second Amendment Foundation has filed a federal civil rights action against Morton Grove, Illinois, and its board of trustees for their June ban on the possession and sale of handguns.

• *Indexing In.* The US Congress voted to include an automatic annual indexing of personal income tax rates to reflect inflation in Reagan's tax plan. This means that if the price level goes up 10 percent, for example, the next year's income tax brackets would be widened by the same 10 percent, to keep people from being shifted to higher brackets.

• *An Arizona Update.* In Trends last month, we mentioned that common carriers had been deregulated along with fire trucks in Arizona. Rural-Metro President Lou Witzeman advises us, however, that the Arizona Corporations Commission has managed to bring the case back to the state supreme court, claiming that any deregulation applies only to fire trucks and *not* to common carriers.

• *Florida Health Freedom.* The Florida legislature recently passed the Cancer Therapeutic Research Act of 1981, allowing cancer patients to use "any method for the control and cure of cancer which has not been approved by the federal Food and Drug Administration." Such patients must seek permission from a Patient Qualification Board and sign a release saying they have been notified of the treatment's lack of FDA approval.

• *Zoning Use Limited.* The US Supreme Court ruled in June that zoning laws could not be used to prohibit sexually explicit entertainment in commercial areas unless all other forms of entertainment were banned as well.

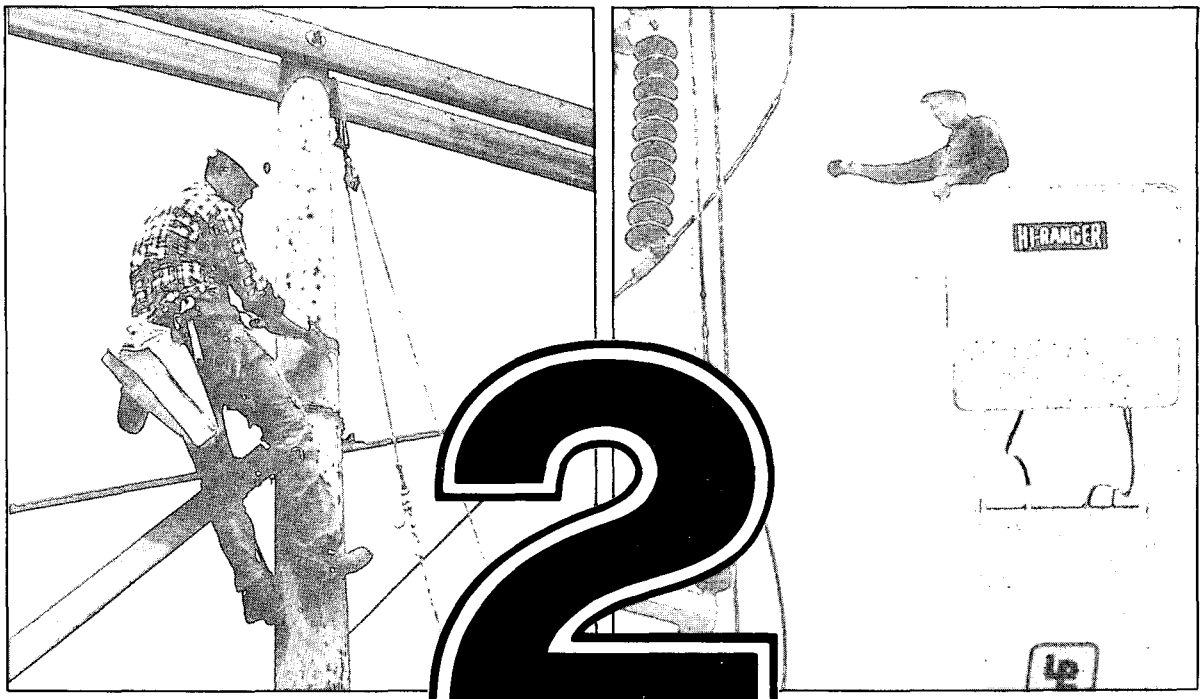
• *Seabed Property Rights.* A recent essay by Robert A. Goldwin published in *Commentary* (June) gives intellectual support to the idea of private property rights on the deep seabed, by harking back to John Locke's theory of ownership (based on mixing one's labor with the resource in question). Goldwin identifies the fundamental mistake made by those who have argued at Law of the Sea Conferences that the sea is "the common heritage of mankind." "Common" means *nonowned,* but the delegates to the conference have come to use it to mean *jointly owned,* as if each nation had an exact and equal share in the oceans. Goldwin recommends that the US delegates start from the premise that no one needs permission to remove resources from the sea.

• *New Tax = Higher Prices.* The Mobil Oil Corp. announced a three-cent per gallon increase in the price of gasoline, diesel fuel, and jet fuel in New York after that state levied additional taxes on oil companies to raise more revenue for the ailing Metropolitan Transportation Authority. It is expected that the Mobil dealers will pass on the extra cost to the consumers. Other oil companies in the state have not announced their course of action.

• *French TV.* France's three-channel, government-controlled television system is undergoing a shake-up under the new Socialist government. French television has traditionally been an apologist for the current administration, but the Socialists claim that they want that to change. They are thus submitting a bill to the National Assembly to take control out of the hands of government and of private corporations... and into whose? we wonder.

• *Paraquat Antidote.* Recent research on rats has shown that the vitamin niacin may be effective in combating the effects of the herbicide paraquat (*Science,* June 26). Paraquat has been in the news recently, with the Drug Enforcement Administration talking about resuming its use on marijuana fields, this time inside US borders.

**—Robert Poole, Jr. and Christine Dorffi**




# 2 Utilities Are Better Than One

*In Lubbock, Texas, two electric utilities are competing for people's business. How does it work? Could competition be the answer to rising electric bills?*

**By Jan Bellamy**

DATELINE: LUBBOCK, TEXAS. "This bill is simply too high," Alma Jones told the customer service representative on the phone. "Last year's July electric bill was half this amount despite the hotter weather."

"I'm sorry, Mrs. Jones," the representative responded, "but our bill simply reflects the meter reading for July."

"Well, your meter reading is wrong," Mrs. Jones replied, "and I want to speak to the customer service manager."

"Mr. Wilson is away from his desk," cooed the cool voice on the phone.

"Well, then, I want a meter reader to come out and check his figures. Something has to be done!" Mrs. Jones was on the verge of tears.

"That isn't possible at this time, Mrs. Jones," the impersonal voice continued, "but our field service representative will be making his regular rounds in two weeks."

"I can't wait two weeks!" Alma Jones cried desperately into the phone. "If you won't resolve this mess today, I'm changing companies!"

"As you wish, Mrs. Jones," the faceless voice retorted.

A woman of her word, Alma Jones slammed the receiver into place just long enough to disconnect that sweet voice. Picking it up again, she dialed the other electric company. "I've paid my last bill to the competition," she informed the service representative who answered. "I want my electric service changed immediately." Three days later, Mrs. Jones was the happy customer of another electric utility, which she believes responds more positively to he requests for assistance.

Though the details of this little scenario are fictitious, such calls take place routinely in Lubbock, Texas. In this west Texas city, consumers enjoy the benefits

*Photographs courtesy of LP&L and SPS*

of competition between Lubbock Power and Light (LP&L) and Southwestern Public Service (SPS) Company. The two companies compete for business despite the preachments of economists who swear by Lord Keynes that competition cannot work in the electric utility industry.

And Lubbock is not an isolated case. Competition between a municipally owned and an investor-owned utility—what economists call a "duopoly" situation—exists in other cities and towns across the country.

## HOW IT WORKS IN LUBBOCK

The competition in this city of some 200,000 residents is active and fierce. LP&L and SPS enthusiastically push and pull for customers in an open market. Yet the rivalry is basically a friendly, cooperative one, I found out on a visit to Lubbock last spring. At least, that's how the two men running the respective operations described it to me over lunch at the country club.

Carroll McDonald is director of sales and service for city-owned LP&L, while Jake Webb serves as district manager for invester-owned SPS (which operates in three states besides Texas). Interestingly, McDonald spent 26 years with SPS before moving over to LP&L two years ago.

"Conceivably, a customer could change service every three days," McDonald told me, though frequent switching is quite uncommon. But the procedure for switching is quite simple. A company sales representative fills out a form for the customer who wishes to change service, and a copy goes to the competition. Every morning at 7:00, an LP&L and an SPS employee stops by the competing firm's offices, a block apart, and picks up an envelope containing the notices of orders for service change. Each company then has 24 hours to convince its customers not to change service.

If the order form is confirmed, the new company goes out and changes the meter. The meters are stored at the main service facilities operated by each company. Each firm sets aside a special wall on which the meters of the competition hang, awaiting the call of a serviceman sent to retrieve them.

To make such switching possible, of course, the entire city must be covered by two sets of electric lines. Doesn't that make for "visual pollution"? I asked

**"If we don't treat you right, you have a place to go. People come in and say, 'Wish we had two phone companies in town.'"**

Webb and McDonald. They quickly pointed out that *many* cities have two sets of poles and lines already—one for the electric company and another for the phone company.

In Lubbock, the most common arrangement is for SPS and the telephone company to share one set of poles, while LP&L shares poles with the local cable TV system. (Although, as I was later to learn, pole sharing *between* competing electric utilities exists in some of the other duopoly cities, the LP&L/SPS cooperative competition has never extended to joint use of the same poles.) In newer Lubbock neighborhoods, all utility lines are underground, removing the aesthetics issue altogether. Interestingly, both LP&L and SPS began "undergrounding" in the mid-'50s, well before most monopoly utilities did.

What about "wasteful duplication," that traditional objection to competition between utilities? Apart from the very minor cost of the dual set of lines, about the only real duplication in Lubbock is the salaries of the two companies' sales reps, who solicit new customers and changes of service. As far as the really large costs—those of power generation—are concerned, each firm has geared its generating capacity to the size of its market share (split about 48/52 between LP&L and SPS, respectively, and relatively stable over time). Thus, neither suffers from wasteful overcapacity.

## SERVICE WITH A SMILE

Despite the fact that each company serves the entire city and tries to win customers away from the other, it cannot offer the lure of a lower price: electricity rates in Lubbock are set by the city council—and kept the same for both firms. Consequently, the competitors must fight it out in the service offered to customers.

This nonprice competition definitely affects the attitudes of the employees. "If we don't treat you right, you have a place to go," mused McDonald over lunch. "People come in and say, 'Wish we had two phone companies in town.' "

Awareness of the importance of courtesy and service doesn't stop with the top managers at either company. Both firms' offices, I noticed when I visited, sport displays in the forms of rugs on the floors or posters on the walls, reminding employees that the customer is *always* right in Lubbock, Texas.

SPS takes great pride in its Consumer Services Department, which serves Lubbock among seven cities in Webb's district on the southern plains of Texas. The nine-member department offers a home demonstration service and provides advisory assistance in the design of facilities for commercial and residential builders, upgrading of lines and fixtures, and engineering of commercial cooking facilities. Webb stresses the company's involvement in promoting Lubbock as the site for new industries.

Not to be outdone, in or out of the office, McDonald argues that city-owned LP&L offers every service outlined by SPS—with the exception of those three home advisors, who, McDonald snipes, spend more time in cooking schools than in homes and actually compete with every home appliance store in town. Webb just grins; the verbal barbs are part of the game.

Both companies schedule specific appointments for placing their meters so that the customer does not have to sit at home all day waiting. Webb points out that SPS follows that procedure in all of its service areas. Could it be an indirect influence of the competition in Lubbock?

Neither company cuts off a customer unless a bill goes unpaid for up to 60 days. And if, as sometimes happens, a resident gets confused and calls the wrong company about an outage, standard procedure for each firm is to notify the other.

Sitting across the table from these two men, I could understand why, as longtime friends and business associates, they could accept such a truce; the cooperation simply makes good business sense. Neither Webb nor McDonald hesitates to say that he would *prefer* to run the only electric company in town, but neither will aspire to put the other out of business: the citizens of Lubbock, Texas, like things as they are, they assured me.

## BOTTOM-LINE BENEFITS

It sounded almost too good to be true. So I decided to check out consumer reaction myself, spending an afternoon walking through a Lubbock subdivision with camera and cassette recorder, knocking on doors. More than one door was opened wide to me with an invitation to "sit a spell" and hear the praise homeowners heaped upon either one or both companies.

"Competition helps hold down prices and results in better service," one homeowner offered. A petite brunette lost no time in informing me, "I like free enterprise."

"I like having the opportunity to change service. We changed because the first electric company wasn't cooperative when a check bounced," explained another while holding back an overly affectionate Doberman.

The majority agreed with one gentleman who stated, "Competition keeps rates down!" And he appears to be correct. The basic rate for residential service in Lubbock is 2.62¢/kilowatt-hour (kwh). Outside Lubbock, areas served by SPS pay 3.13¢/kwh—nearly 20 percent more. (Total electric bills in Lubbock are sometimes slightly higher because of a fuel pass-through charge—based on LP&L's more expensive fuel—added by the city onto *both* companies' bills. Absent this government intervention, SPS's rates could undercut LP&L's.)

In answer to my query, one homeowner slid his hands into his pockets, grinned at me, and replied, "Competition is the best thing in the world."

Kenneth May, associate editor of the *Lubbock Avalanche-Journal,* agrees. "I think Lubbock residents have voted their approval of the competition each time they voted to pass a bond issue so that LP&L can expand."

LP&L's McDonald agrees, "As long as SPS is competitive [with us] it is a plus for residents. We don't wait a day or two to get out there and service a customer; we do it right away, or that customer may change his service."

## LOOKING BACK

Local residents, the media, and the heads of the two electric companies are so convinced that competition benefits the community because competition has proven itself again and again in the last 60-plus years in Lubbock, Texas.

It all began in March 1916, when then-monopoly Texas Utilities refused a rate cut demanded by the Lubbock city council. The city fathers emerged from a closed-door meeting to announce that Lubbock would build a city-owned electric utility company to compete with Texas Utilities. The city refused Texas Utilities' offer to sell its facilities, presumably because the price was too high. The city of Lubbock began operation of its utility in 1917, and the competition was on. (Southwestern Public Service Company bought out Texas Utilities in the 1940s.)

That competition continues to this day. You might even say that this west Texas city is a monument to the competition that once thrived in the electric utility industry throughout the country. That's right. Competition was once the rule in the provision of electricity. At one time, the majority of cities in America saw competition between two, three, or even more electric utility companies.

Several years ago, preparing to begin his Ph.D. thesis, Gregg Jarrell of the University of Rochester wondered why electric utility competition began dying out in the 20th century. Poring over old records, Jarrell found that in 1887, in New York City alone, six competing electric light companies were organized. By 1905, some 45 electric utilities had been granted franchises to operate in Chicago (only one of them an exclusive franchise granting the sole right to serve a territory). Prior to 1895, five electric lighting companies served Duluth, Minnesota, and four operated in Scranton, Pennsylvania in 1906—to name but a few. Competition was not only common but persistent.

What happened to this frenetic pace of competitive activity? The conventional explanation is that it proved unworkable.

By 1907, New York and Chicago had seen a wave of mergers, and most of the firms had been consolidated into single entities with de facto monopolies. It was argued that city governments, lacking technical and economic expertise, had allowed too many firms to go into the electricity business and thus were in large part responsible for the overcapacity and undercapitalization that ended up in bankruptcies, mergers, and the emergence of powerful monopolies. Once entrenched, these monopolies could cut back output and force up prices, with the poor consumers at their mercy. So the idea of state regulation of electric utilities by well-trained professionals became a common political battle cry.

New York and Wisconsin were the first to create statewide public utility commissions, in 1907. In the next seven years, 27 more states followed suit. At first, utility firms fought the trend, but by 1912, Jarrell found, they had become "the main champions of the movement" for state regulation.

It was that shift that intrigued Jarrell

## COMPETING KILOWATTS

*US Cities with Direct Electric Utility Competition*

**ALABAMA**
*Tarrant City*

**ILLINOIS**
*Bushnell*

**IOWA**
*Maquoketa*

**KENTUCKY**
*Paris*

**MICHIGAN**
*Bay City*
*Dowagiac*
*Ferrysburg*
*Traverse City*
*Zeeland*

**MISSOURI**
*Kennett*
*Poplar Bluff*
*Sikeston*
*Trenton*

**OHIO**
*Columbus*
*Hamilton*
*Newton Falls*

**OKLAHOMA**
*Duncan*

**SOUTH CAROLINA**
*Greer*

**TEXAS**
*Floydada*
*Lubbock*
*Seymour*
*Sonora*
*Vernon*

*Adapted from Walter J. Primeaux, Jr., An Examination of Direct Electric Utility Competition (forthcoming).*

and suggested the substance of his Ph.D. research. Why did the utilities switch sides? Could it be they expected to be better off under regulation than under competitive conditions? In short, he asked, "Was state regulation of the electric utility industry primarily motivated by a concern for the public interest, or was it a policy designed to benefit the private interests of the utilities?"

To answer this question Jarrell looked at where the demand for regulation first appeared. If the conventional view—that regulation was promoted in the interests of consumers—were correct, he reasoned, regulation would have been demanded the loudest and occurred first in states where the excesses of monopoly were the worst—that is, states whose utilities enjoyed fat profits thanks to restricted output and high prices.

In fact, Jarrell discovered, the first states to come around to regulation were those whose utility rates had been much *lower* (by an amazing 46 percent) than those of late-regulating states. Profits, too, were lower (by 38 percent) and output was higher (by 23 percent). In short, it appeared that regulation was sought most avidly precisely in those states with the *least* monopolistic utilities, those least able to manipulate output and prices. This finding bore out the suspicion that it was the utilities themselves that wanted regulation, to protect themselves from competition.

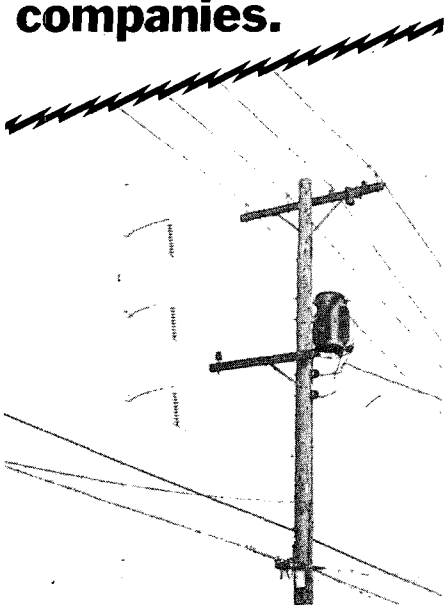
Further confirmation came from Jarrell's second finding. After five years of state regulation, he discovered, the utilities' prices and profits had both *increased*, while electricity output *fell*. Regulation was creating the very monopolistic results the public was told it would counteract!

## ACADEMIC APOLOGISTS

How were the utilities able to pull it off? Although populist arguments about the greed of monopoly corporations held some sway with the public, a key factor in selling the idea of state regulation was the rationale provided by economists. As long ago as 1848, John Stuart Mill advanced the idea that utility companies are "natural monopolies."

The core of the economists' argument ran as follows: A utility is a business characterized by substantial *economies of scale*—as its size increases, the costs of its expensive plant and equipment can be spread over more customers, so that the cost per unit of output decreases with increasing size. Thus, to serve a city of 200,000 people, one firm sized for an output of 200,000 can produce at lower average cost than two firms geared to serve 100,000 each.

**At one time, the majority of cities in America saw competition between two, three, or even more electric utility companies.**



If government stands aside, the theory went, the workings of the marketplace will inevitably lead to the most-efficient result of a single firm winning out, because of its ability to offer lower prices thanks to lower average costs. But then, having secured its monopoly position (buying out rivals, etc.) the monopolist will be free to jack up the rates, earning "monopoly profits" at the expense of hapless consumers whose alternative suppliers have all gone out of business. (And because of the large investment required, potential competitors are supposed to be unlikely to risk taking on the monopolist.)

The economists' solution was to have government offer the utilities a Faustian bargain. Since the business is a natural monopoly anyway, they reasoned, let's grant an exclusive franchise, thus protecting the utility against competitive threats. *In exchange,* government would control the rates charged consumers. That way, the rates could be kept at "reasonable" (nonmonopoly) levels, and customers would still reap the benefits of the natural monopoly's economies of scale.

The basis for rate setting would be a specified rate of return on the company's investment. The experts on the regulatory commission would keep tabs on the utility's total investment (called its "rate base") and allow it to set rates so as to earn up to a maximum percentage return (for example, 10 percent) on that rate base each year.

That, at least, was the theory. And after being discussed by economists for decades, it took the country by storm in the teens and twenties, becoming the basis for legal monopolization of the nation's telephone system as well as nearly all gas and electric utilities. Hardly an economics text in the country omits a discussion of the natural monopoly theory of public utilities, dutifully assuring the students that exclusive franchises, public utility commissions, and rate-of-return regulation are the best ways to protect consumers from the evils of utility monopolies.

## ECONOMIC REVISIONIST

Although a few economists have questioned the efficacy of regulation via public utility commissions, it was not until the 1970s that a serious challenge to the natural monopoly theory arose. It came from Walter J. Primeaux, today a professor of economics at the University of Illinois at Urbana. Primeaux has spent the past 13 years single-mindedly researching electric utility competition.

It all started back in 1968, in a classroom at Louisiana State University. "I was lecturing the students on the subject of 'natural monopoly,' " Primeaux recalls. "I was discussing the theory as applied to electric utilities when a young gentleman raised his hand: 'That's not the way it is in Lubbock, Texas,' he said. I assured him he perhaps misunderstood, but he contended he had lived in Lubbock where there was successful competition between two electric companies.

"I couldn't shake the thought—that years, even decades of economic theory, could be disproven in one Texas town; and I wondered 'Could there be other cities in which competition survives, even grows?' And that's when I began my studies."

After combing through records compiled by the old Federal Power Commis-

sion, Primeaux traveled to some of these cities and spent time learning the history of the competition, assessing public attitudes, checking on the nature and extent of competition (which sometimes included price competition but more often was restricted to service competition, as in Lubbock).

Among Primeaux's discoveries was the fact that electric utility competition seemed to be dying out. By 1972 the number of cities with competition had dropped from 49 to 35. And today Primeaux's tally reveals only 23 competitive cities (see table, p. 25).

Turning his research to the cause of this demise, he found that the opponents of competition were not consumers in the area but regulatory officials committed to its elimination on theoretical grounds. Like their predecessors, public utility regulators remain convinced that electric utilities constitute a natural monopoly and should therefore be subject to rate-of-return regulation.

In Oregon, for example, when Pacific Power & Light met the competitive price of the Northern Wasco County People's Utility District, there were cries of protest—not from the public at large, but "from sources whose interests are the result of social and government theories." Surveying public utility commissions in all 50 states, Primeaux found that competition is outlawed in all but a handful of states.

Yet, despite the pressure of legislatures and state regulatory commissions, where residents have a choice they always vote in favor of competition. In Sikeston, Missouri, voters were asked in 1967 to approve a bond issue to allow the local Board of Municipal Utilities to buy up the facilities of Missouri Utilities, thereby ending competition between the two. The bond issue failed, and Primeaux found that among the reasons voters cited was a desire to retain competition between the two firms. Residents told Primeaux that they believed the competition guaranteed better service and helped maintain lower rates.

In Hagerstown, Maryland, voters also rejected an attempt in 1965 to buy out the local investor-owned facilities. Again, Primeaux found that voters believed competition forced the competing companies to supply better service. (Unfortunately, this competition was subsequently ended by the state regulatory commission.)

In Lubbock, by contrast, the city fathers wrote into the city charter that any change in the competition between Lubbock Power & Light and Southwestern Public Service Company must be approved by three-fourths of the registered voters. Nowhere in the country do three-fourths of the registered voters even vote, much less agree!

## THE THEORY CHALLENGED

Primeaux did more than simply amass case studies, however. He also collected data on how costs and prices compare under conditions of competition and monopoly. After all, the natural monopoly theory maintains that costs—and hence the rates allowed by the regulatory agency—will be less under regulated-monopoly conditions than under competitive conditions.

So Primeaux set about collecting data to compare the prices charged to electricity consumers in cities with and without competition. Using standard statistical techniques, he eliminated whatever price differences could be explained by a number of possible factors (income effects, climatic conditions, extent of residential versus commercial and industrial sales, population density, etc.), so that in the end he would have a measure of the extent of price variations attributable to the existence or nonexistence of competition.

Even Primeaux was surprised by the magnitude of the results. In competitive cities the marginal price (the price for an additional unit) was 16 to 19 percent *lower* than in monopoly cities, while the average price was a whopping 33 percent lower. And the statistical adjustments for other factors revealed that it was the competitive market that largely accounted for these differences.

But what about the economies-of-scale argument? How *could* smaller, competing utilities actually be able to charge less than larger monopoly ones? Primeaux discovered what he thinks is the answer in the work of another economist, Harvey Leibenstein. In a landmark 1966 article in the *American Economic Review,* Leibenstein developed his concept of "X-efficiency."

Simply put, the idea is that in general neither people nor organizations work at maximum efficiency or effectiveness all the time. Competition plays an important role in the intensity with which people work. Where there is little competitive pressure to perform, many people opt for less work effort and better interpersonal relations in the workplace. Leibenstein's X-efficiency theory postulates that because of such effects, a firm's *costs* will be lower when it faces competition than when it does not, because its employees will be given greater incentives to think, plan, and work efficiently.

Once again Primeaux used data from competitive and noncompetitive utilities, this time focusing on costs rather than prices. What he found was that competition lowers the average cost of production, exactly as the X-efficiency theory predicts.

His analysis also revealed that the X-efficiency effect was more significant for smaller firms than for larger ones. In fact, Primeaux's rough estimate, based on data from the 1960s, was that the cost-reducing effects of X-efficiency outweigh economies-of-scale effects for small firms and for medium-sized ones, up to an annual power output of 222 million kilowatt-hours (kwh). Above that size, he concluded, economies of scale become so important that a single firm *would* be more efficient than competing firms.

Yet there is reason to think that Primeaux was too cautious in his assessment of the reach of X-efficiency. Consider once again the example of Lubbock. Electricity rates there are 20 percent lower than in nearby Texas areas. Yet LP&L and SPS together produce over 1.5 billion kwh per year—far higher than Primeaux's cut-off point.

Lubbock was not one of the cities in Primeaux's data base, and when I told him that figure he was quite pleased. "I have every reason to believe that if Lubbock had been in the sample years of data the earlier results would have been even more impressive," he told me. In fact, he pointed out, only 3 of the 23 competitive cities he analyzed had power outputs exceeding 200,000 kwh, so the 222,000-kwh cutoff had been based on very limited data. If more large cities had competition, we might have a lot more evidence in support of X-efficiency.

Not being a whiz at math, I couldn't really assess Primeaux's statistical results. But a chart I picked up at SPS in Lubbock brought home to me what X-efficiency is all about (see chart, p. 29). It showed SPS's cost of building a new coal-fired power plant in the late 1970s versus that for comparable plants in Wisconsin, Oregon, and Pennsylvania (based on calculations by the Electric Power Research Institute). The other three

plants averaged $739 per installed kilowatt—fairly typical for modern 500-1,000 megawatt plants. But here was SPS able to build the same thing for only $296 per kilowatt!

If that's what X-efficiency means in practice, then I'm a believer. Those people really *have* figured out how to produce electricity cheaper! (In fact, SPS's installed cost per kilowatt is the lowest in the nation.)

There's one final nail in the coffin of the old economies-of-scale argument for regarding utilities as natural monopolies. It is that for large firms—the ones Primeaux tentatively excluded from eligibility for competition—economies of scale no longer exist. It turns out that the economics of producing electricity underwent a fundamental shift in the latter half of the 1960s.

What happened, notes utility analyst Ernst R. Habicht, Jr., was that rising costs of production began overtaking the pace of technological change. The result? Utilities shifted from being a declining-cost to an increasing-cost industry. Each new increment of generating capacity cost so much more to build that the net effect was to *raise* average costs instead of lowering them. In short—no more economies of scale.

## RATE-OF-RETURN RUIN

Conventional public utility regulation is a bad deal for consumers. By forcing a monopoly structure on electricity production, it has raised utility costs by promoting X-*in*efficiency, has led to higher utility rates, and has restricted consumer choice and the availability of good service. (In Sikeston, Missouri, the competing utilities provide the following customer services at no charge: cutting down trees, providing poles for TV antennas, providing free electrician services, and installing the wiring from the power pole to the building.) Ironically, though utilities fought for and benefited handsomely from regulation, today they are being strangled by it.

As noted earlier, the basic approach to pricing employed by public utility commissions is rate-of-return regulation. Because the system is designed to allow up to a specified return on the company's installed capital infrastructure—the rate base—it is in the company's interest to load everything possible into that rate base. The more it costs to build a power plant—and most coal-fired plants cost $700-$1,000 per installed kilowatt—the more the utility can make at its allowed 10 percent return on the rate base. The utilities have every incentive to build plants as *in*efficiently as possible—they're rewarded by the regulators for doing so. Without competition as a counteracting force, they've historically done just that, and the consumer takes it in the pocketbook.

**Despite the pressure of legislatures and state regulatory commissions, residents who have a choice always vote for competition.**

This part of the rate-of-return gravy train is still in motion. Another part of it, though, has turned around and now threatens to ruin the utilities. That other part is regulatory lag.

During the 40-odd years when electric utilities were declining-cost firms, the purpose of regulatory rate hearings was to decide on the size of rate *decreases*. All during that period, technological improvements and economies of scale in going to larger power plants led to continuing declines in the cost and price of electricity. The average price dropped from 7.45¢/kwh in 1920 to 6.03¢ in 1930, 3.84¢ in 1940, and 2.88¢ in 1950 (measured in constant 1967 dollars).

Because of this downward cost trend, it was clearly in the utilities' interest to have rate-hearing procedures that were thorough, complex, and time-consuming—the more time-consuming the better. The length of time between the initiation of a regulatory agency proceeding and its final resolution is referred to as regulatory lag. And for 40 years, regulatory lag worked in favor of the utilities, putting off the advent of rate decreases.

Then came the 1960s, and when utility economics changed, so did the significance of regulatory lag. Now the purpose of a regulatory proceeding was to obtain a rate *increase*. But the well-oiled gears of the regulatory machinery ground on at their accustomed snail's pace, aided and abetted by consumer and environmental groups who arose to challenge the wisdom of virtually every rate-increase request.

Regulatory lag began cutting off the utilities' access to capital, right when they needed it the most. Faced with skyrocketing prices of oil and natural gas, rising coal prices, and huge increases in construction costs, utilities desperately need the ability to make their own investment decisions in a timely fashion. But regulatory lag means they must spend two years arguing over what was needed two years ago instead of getting on with today's job.

This is no trivial problem. The financial markets have reflected the dramatic decline in the utilities' financial health. Over the past decade, utility bond ratings have dropped from AAA and AA to the A and BBB category, indicating higher risk. By 1981 the value of utility stocks had dropped to 75 percent of book value—that is, to less than the firms' facilities are worth.

According to Harvard energy researcher Peter Navarro, "the root of the problem is electric utility regulation." Because of regulatory lag, Navarro says, rates set by regulators based on outdated cost figures prevented any major regulated utility from realizing its allowed rate of return in 1980. And in nearly every case, the rate of return it did earn was below its cost of obtaining capital—a sure route to bankruptcy. It's not surprising, then, to learn that more than half of the new electric generating capacity scheduled for 1979 through 1988 has been delayed or deferred—the utilities simply can't raise the money.

The solution increasingly being proposed is...deregulation. No less an authority than the director of the Harvard Energy Security Project raised the

idea on the op-ed page of the *Washington Post* in April. Reviewing the utilities' sad plight, Alvin Alm concluded that there are really only two ways out: an enormously costly federal bailout, or deregulation. By removing at least new plants from regulation, he suggested, new firms or deregulated subsidiaries of existing utilities would be able to raise capital more easily because the plant's construction and operation would be free of regulatory control.

Alm is not alone in this idea. In his article he pointed out that at a recent conference sponsored by the California Public Utilities Commission, the heads of both the California and New York PUCs, John Bryson and Chuck Zielinski, "both advocated decontrol as the best solution to the utility crisis." And Zielinski, going further than Alm, urged that *all* generating plants—not just new ones—be freed from regulation. "In the long run," notes Bryson, "a deregulated market would force rigorous decisions on the most cost-effective means of supplying electricity needs." Even regulators are advocating deregulation!

But it's not just electric utility experts who are coming to favor deregulation. So are authorities on the regulated telephone utility—and for similar reasons. Nina Cornell was chief of the Office of Plans and Policy of the Federal Communications Commission until early this year. In her years at the FCC she saw first-hand how rate-of-return regulation works in the telephone industry. In an article in *Regulation* in November 1980, she analyzed the assumptions behind such regulation and found them wanting.

Utility regulators operate as if both consumer demand and technology (supply) remained essentially static, she noted, rather than being dynamic and hard to predict. As a result, regulation tends to lock regulated firms into obsolete technologies and to stifle innovation. One explicit way it does this is by encouraging long depreciation periods, matched to the *physical* life of the equipment rather than to its *economic* life. Thus, telephone companies are still utilizing huge quantities of obsolete electromechanical relays in their switching systems. Likewise, electric utilities have resisted replacing economically obsolete oil-fired plants and seem unable to cope with the variety of new small-size energy sources (see box, p. 30).

As Cornell sums it up:

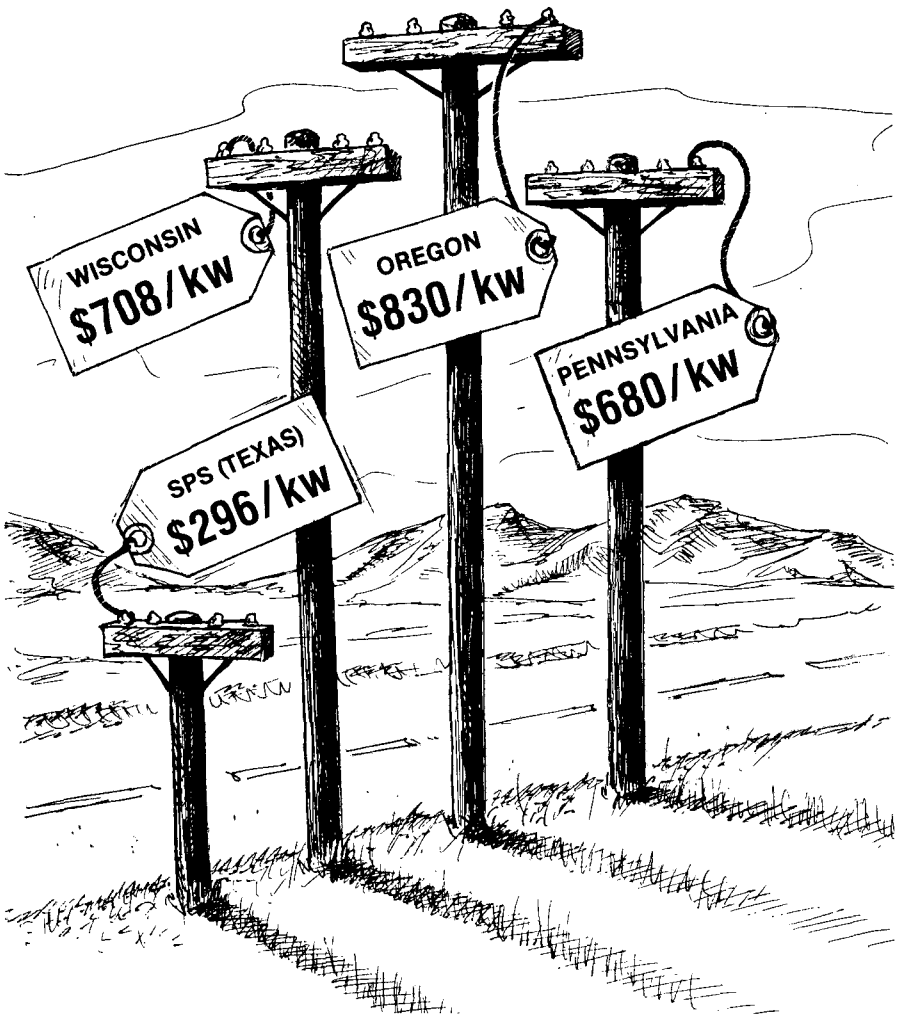
*Rate-of-return regulation with price and entry controls has the effect of slowing product innovation and technological change by regulated firms; by firms that might want to enter the market, using a better idea to make the very same output; and by firms that might develop new products to serve the same basic functions.*

It seems quite likely that it is because of rate-of-return regulation that the fraction of its revenues that the electric utility industry invests in research and development (0.6 percent) is among the lowest in all of American industry.

In fact, explains Cornell, what we have is a vicious cycle. Due to the possibility of monopoly and its potential for harm to consumers, regulation was created to guarantee and (supposedly) control the monopoly. But the regulation itself serves to perpetuate the conditions that make for monopoly in the first place—by forbidding the challenges that come from innovation, which in turn spring from competition. Thus, concludes Cornell, "rate-of-return regulation does not work, creates distinctly bad side-effects, and takes on the status of a self-fulfilling prophecy."

## THE PRICE OF MONOPOLY

*Cost per kilowatt of capacity installed: SPS power plant versus monopoly plants in other states*




## OPENING DOORS

Primeaux, Leibenstein, Cornell—the lesson is that the production and sale of electricity is not a natural monopoly and probably never was. Power plants operate more efficiently when they face competition than when they are monopolies. While regulation has not protected consumers from monopoly, it *has* managed to protect monopolies from competition at the expense of consumers.

Moreover, there have always been sub-

stitutes for power-plant electricity. There are other sources of heat than electricity (oil, coal, gas, wood, solar), other sources of cooking fuel (gas, wood), and decentralized sources of electricity as well (cogeneration, small hydro, windmills, etc.—see box).

In addition, as economist Harold Demsetz pointed out in 1968, even if a single utility firm had significant economies of scale in an area, there is good reason to think that the potential for competition from rival firms moving into the area would serve to keep prices below monopoly levels. And if individuals or consumer groups owned the local distribution lines, Demsetz noted, they could seek competitive bids from electricity generating companies rather than being stuck with a monopoly supplier.

Movers and shakers are starting to take electricity deregulation seriously. Justice Department antitrust chief William Baxter told the *Wall Street Journal* in June that he thinks the idea is worth exploring. A congressional subcommittee headed by Rep. Richart Ottinger (D-N.Y.) is advocating local experiments in electricity deregulation. Even the Edison Electric Institute, the industry's rather staid trade group, has launched a study. "Deregulation is going to be a major item of the next decade," predicts Edison Vice-President Terry Farrar.

But what most of these people mean by deregulation is exemption of electricity *generation* from controls. Distribution systems are still viewed as natural monopolies. Yet as we have seen in Lubbock and 22 other cities, actual head-to-head competition in production *and* distribution not only is possible but is actually *more economical,* thanks to the discipline forced on companies by competition (that good old X-efficiency).

Today, more than ever, with the rebirth of cogeneration, the rush into small-scale hydropower turbines, the revival of wind energy systems, and future prospects for fuel cells and solar panels, the dead hand of monopoly and rate-of-return regulation is the last thing we need. There's a dynamic, competitive industry lurking in the shadows of the smokestacks and cooling towers, waiting to step forth into the sunshine—if only the politicians and bureaucrats will let it.

"When should an industry be subject to classical public utility regulation?" asks Nina Cornell. "The answer is 'never.' This form of regulation, widely viewed as protecting the public from abuse of monopoly power, in fact has never done so, never could, and never will. . . . It is both a snare and a delusion—and an unacceptable fraud on the public." With electric utilities fighting for survival and with energy entrepreneurs waiting in the wings, the time to end that fraud is now. ◧

*Jan Bellamy has worked as anchor, editor, and reporter for several radio stations. She currently works for a law firm. This article is a project of the Reason Foundation Investigative Journalism Fund.*

# DEREGULATION: ENERGIZING POWER PRODUCTION

Congress started the ball rolling on electricity deregulation three years ago by passing the Public Utility Regulatory Policies Act of 1978. Known as PURPA, the legislation exempts small electric power producers from regulation and requires that regulated utilities purchase power from them at a price equal to what it would have cost them to generate it themselves. (It does not, however, allow the new producers to sell their electricity to anyone but an on-site user or the local utility.)

PURPA hadn't had much effect until this year. It took the Federal Energy Regulatory Commission (FERC) 18 months to develop regulations to implement PURPA. Next, the FERC ordered all 50 state public utility commissions to develop plans for putting the regulations into effect. Every PUC was supposed to calculate the rates at which each utility would purchase power from the new producers—the marginal cost ("avoided cost") to the utility of additional output. But as of the March 20, 1981, deadline, only a few states had complied. The rates in effect range from 3¢ per kilowatt-hour (for utilities with mostly coal and nuclear power plants) to more than 8¢/kwh (for those dependent on oil-fired plants).

Despite PURPA's slow start, venture capital is pouring into alternative energy, promising a decentralization of electricity production. The principal action is in the following three areas:

• *Small-scale hydropower.* All across New England and throughout the Rockies, "energy prospectors" are filing applications with the FERC to install small-scale turbine generators at old dam sites and potential dam sites. The FERC expects about 1,800 applications before the year is out. The maximum size allowable under PURPA is 80 megawatts (MW).

• *Wind energy.* A number of firms have been created to buy or build advanced-design windmills and sell their output to utilities. San Francisco-based Windfarms, Ltd., is building an 80-MW project on Oahu, Hawaii, with the power contracted for delivery to Hawaiian Electric. It is also negotiating a 350-MW project with California's Pacific Gas and Electric. PG&E already has a contract for the output of a 5-MW US Windpower project near Livermore, California.

• *Cogeneration.* Many industrial processes require thermal energy; the combined production of it and electricity is referred to as cogeneration, a highly efficient process. (For example, a boiler produces steam that is first run through an electricity-generating turbine and then used to provide industrial heat.) Common in manufacturing plants before electricity prices dropped to two and three cents per kwh, cogeneration had nearly died out by the 1960s. But rising electricity rates and PURPA have given it a new lease on life. Washington, D.C.-based Energenics, Inc., plans to own and operate cogeneration units on-site at industrial plants, selling the surplus power to the local utility.

While a boon to energy entrepreneurs, PURPA has come under fire from some utilities. Arkansas Power and Light argues that it is unfair that new firms can provide cogeneration units free of regulation while utilities cannot. It seeks to have PURPA amended to allow utilities to set up unregulated cogeneration subsidiaries.

Meanwhile, New York's Consolidated Edison and the American Electric Power System have filed suit in federal court to overturn portions of PURPA. And a Mississippi state court has already ruled the law unconstitutional, in a case brought by Mississippi Power and Light. The federal government has appealed that case directly to the US Supreme Court, whose decision is expected early next year.

The FERC thinks that PURPA could result in 12,000 MW of new capacity by 1995—the equivalent of about 12 nuclear power plants. And this is considered a *modest* estimate of the effects of decentralizing electricity production. Now, all that depends on whether PURPA survives.

—R. P.

# INSIDE CUBA TODAY

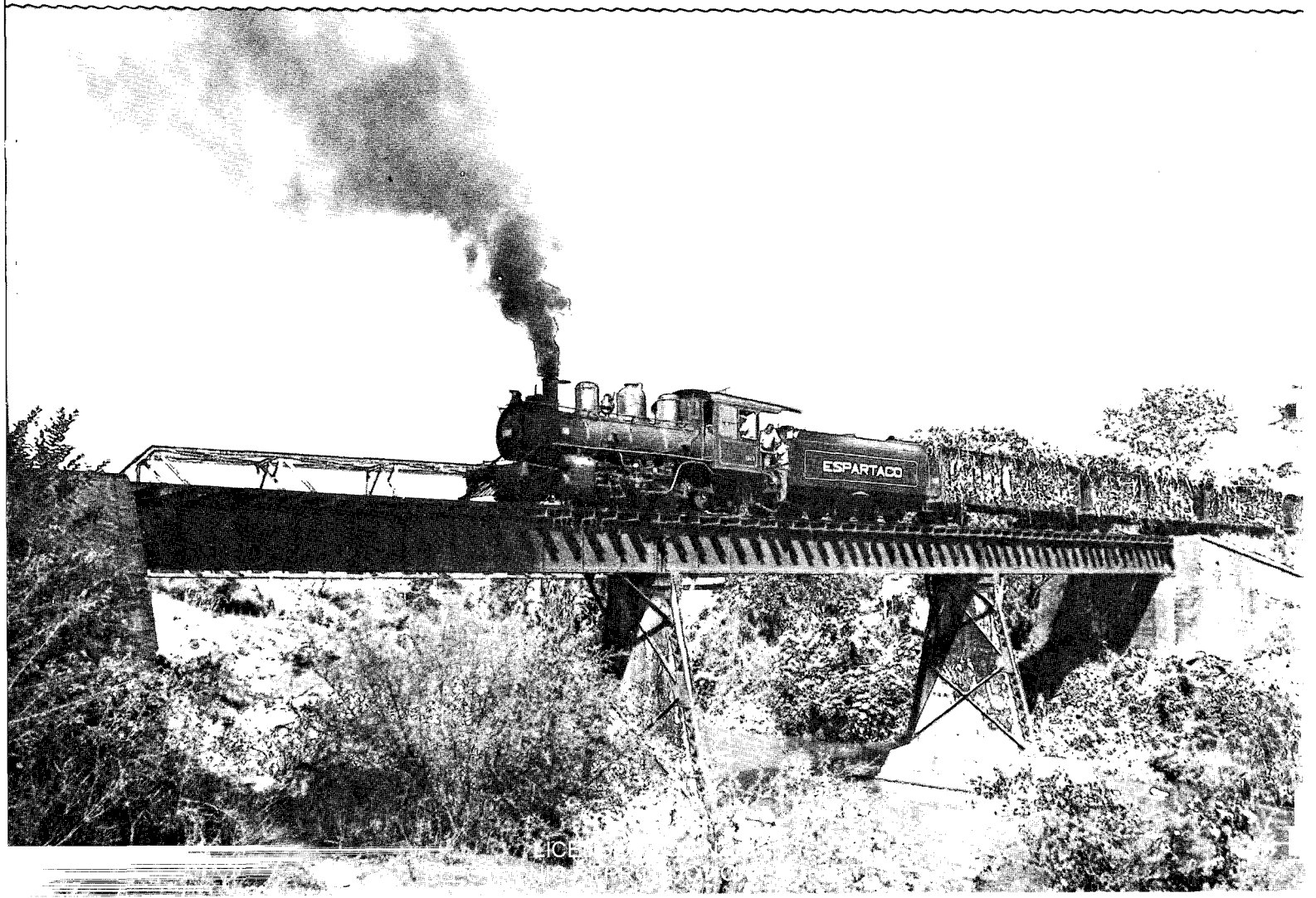
*REASON's editor takes a first-hand look at Castro's workers' paradise*

**By Robert Poole, Jr.**

**A visit to Cuba in 1981 is like stepping into a time machine and emerging in the 1950s.** It isn't just the vintage American cars—in eight days I spotted a half dozen Studebakers, dozens of classic Chevys and Buicks, and even a blue Frazer. It's also the absence of so many of the everyday conveniences we take for granted.

Take office equipment, for example. On my visit to the main Havana railroad station I was given a tour of the dispatch and reservations offices. In the entire building, not a single electric typewriter or photocopier was in evidence. The status of all trains is monitored by telephone calls to station masters and kept track of with little paper tags hung on a board. I never once saw a piece of electronic gear, not even a $10 Japanese calculator.

Upstairs was the central reservations system, of which the officials were quite



proud. At the centerpiece of the system was a "random-access disk drive": a motorized nine-foot plywood turntable, rotating at several revolutions per minute, on which were placed file folders for the various trains. Reservations clerks seated around the periphery answered phone calls, pulling the appropriate folder as it passed by and entering the passenger's name on its log.

As we left, I asked our "Cubatur" guide if Cubana (the national airline) used a similar system. No, she replied, rather sheepishly. *They* have a computer because they have so much international business.

There was also a computer—an East German Robotron—pictured on some of the PR material for the 1981 Cuban census. But aside from that and the respectable number of late-model Soviet Lada automobiles, the image of the '50s was unblemished. The five-and-ten I wandered into in Cienfuegos was obviously a former Woolworth's, unchanged since nationalization, complete with lunch counter along one wall. Except for the signs in Spanish, one could have been in Peoria in 1955. The hotels, too, though considered "first-class," take one back to the time when hot water and carpets were considered luxuries rather than necessities.

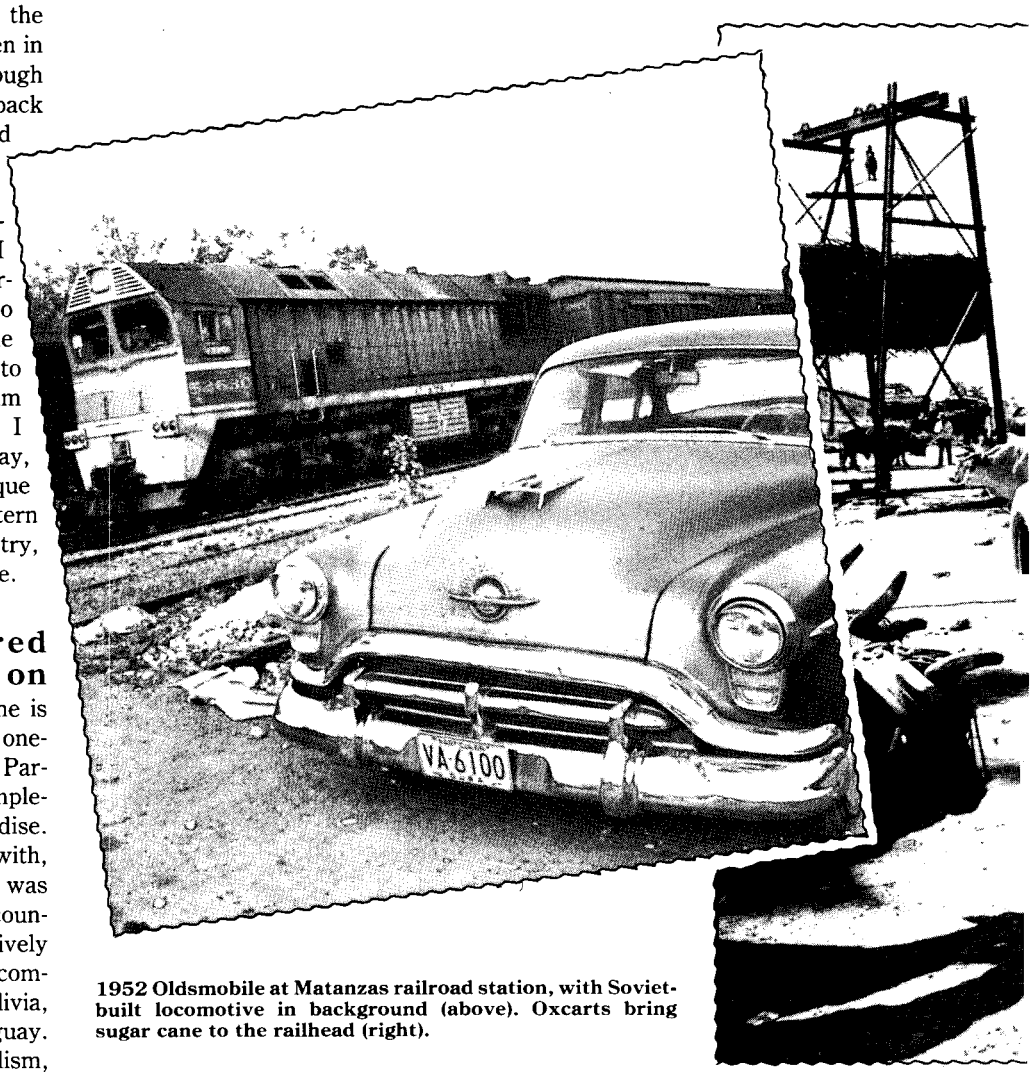
What was I doing in this place? Unbeknown to many REASON readers, I am an ardent railroad fan. My particular love: steam locomotives. So when I saw an ad in *Trains* magazine last winter offering railfan trips to Cuba, telling of dozens of steam locomotives in regular service, I jumped at the chance. Needless to say, the trip would also provide a unique behind-the-scenes look at the Western hemisphere's only Communist country, a point that did not escape my notice.

**Fidel Castro entered Havana in triumph on January 8, 1959.** (The scene is engraved on the reverse of Cuba's one-peso notes.) The Cuban Communist Party (PCC) has thus had 22 years to implement its vision of the workers' paradise. How well have they done? To begin with, it helps to remember that Cuba was always one of the more developed countries in Latin America, with relatively high levels of literacy and income compared with such backwaters as Bolivia, Honduras, El Salvador, or Paraguay. And today, after 22 years of socialism, Cuba does rank ninth in per capita income among the nations of Latin America—at least if government figures can be believed.

Nevertheless, the extent of visible poverty is surprising. All basic foodstuffs—bread, milk, meat, rice, even sugar—remain strictly rationed. The typical food shop—this time out of the '30s rather than the '50s—consists of a counter and, behind it, bins of bulk commodities and shelves of East European canned goods. People queue up and file in clutching their ration books, in which are recorded their allowed purchases of the rationed goods. (This way there can be no "gray-market" trading, as there might be if ration coupons were used instead.) Some of the shelves are marked "Venta Libre" to indicate goods in large enough supply that month to be free of rationing.

But rationing is only the beginning. I was not prepared for the Cuban countryside, in which the typical peasant still lives in a tiny frame house with palm-thatched roof, cuts cane with his own machete, and brings it to the railhead in an ox-drawn cart, from which it is loaded onto freight cars hauled by US-built steam locomotives of 1900-1920 vintage. Yes, there *are* some mechanical harvesters and tractors in Cuba; I saw some. But I was unable to obtain figures on what portion of the sugar crop they account for. It was hand labor and animal power that appeared to predominate.

The Cuban government has spent a lot of money on measures aimed at improving people's lives. In every province I visited there were standardized concrete apartment buildings, painted in pastels. Every state farm has its own concrete water tower, another standard design. Reinforced concrete power poles are replacing wooden poles everywhere. Road construction is proceeding, as is reconstruction of the Havana-to-Santiago railroad mainline with prefabricated 10-meter sections of rails attached to concrete ties.




**1952 Oldsmobile at Matanzas railroad station, with Soviet-built locomotive in background (above). Oxcarts bring sugar cane to the railhead (right).**

*Photographs by Thomas A. Yorke*

Yet even in these activities the inefficiency of socialist planning is glaringly obvious. Along one stretch of rebuilt railroad, in the course of a half hour I spotted seven concrete highway overpasses standing there in space, like monuments, connected to nothing. In most of the locations, there was only a dirt road crossing the tracks nearby; in others, the future road must exist only in the Five Year Plan. For some inexplicable reason, all that concrete and labor have been expended years before there is any need for it.

Such waste extends to the labor force, as well. "There is no unemployment in Cuba," our guide, Teresa, told us proudly. And it was easy to see why. Every hotel has elevator operators, even though most of the elevators are push-button type. To make sure that patrons use them, the stairway doors are kept locked. (Too bad if there should be a fire!)

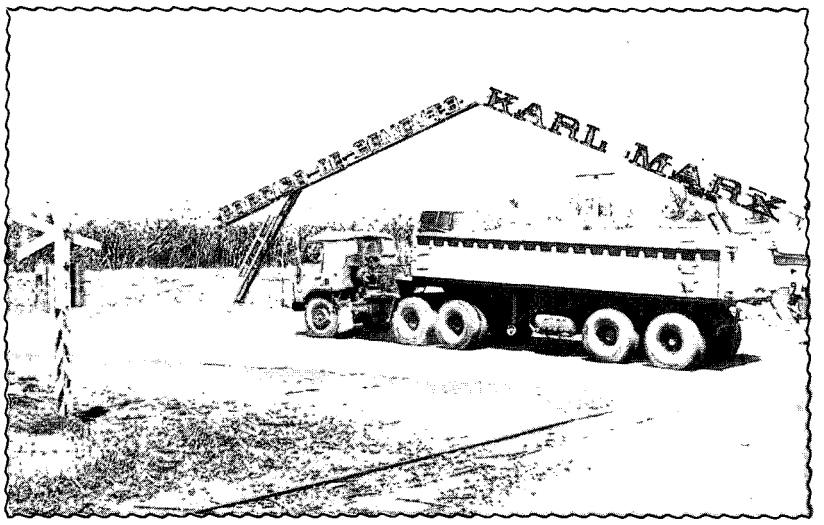
Our 12-person tour was provided with two full-time bus drivers, a hostess, and a railroad official—all in addition to our official Cubatur guide and a second guide who joined us for the Cienfuegos portion. Railroad featherbedding seems to be even worse in Cuba than it is here. Our three-car interurban train carried a head-end crew of three plus a hostess and two food-and-drink salesmen.

Despite such outright waste of manpower, Cuba relies extensively on child labor in agriculture. They don't call it that, of course. Instead, it's organized on the basis of "work-study secondary schools." These boarding facilities provide the students with three to four hours a day of agricultural work in addition to their schooling. Our bus several times passed truckloads of these kids on their way to the fields—they looked to be 13 to 16 years old.

Nearly everywhere, even recent construction has an unbelievably shabby look to it. Cuban concrete blocks appeared misshapen and of very poor quality concrete—perhaps they are turned out in backyard molds akin to Mao's backyard steel furnaces. Everywhere paint was mildewed and chipping off even relatively recent buildings. Doesn't anybody *care* how things look? I wondered.

But then I remembered—virtually all these buildings belong to the State. There have been no landlords in Cuba since the revolution. People can own their own homes if they can afford them. In fact, they can own up to three but may *not* rent them out. So the only landlord is the State, and apparently paint and maintenance aren't included in the current Five Year Plan.

**Here and there the government is being forced to make concessions to economic reality.** One example is ads for housing. Having eliminated the landlord and the marketplace, Cuba for a




Truck approaches entrance to Karl Marx Cement Factory.

"We comply with the decisions and resolutions of the 2nd Congress," reads factory sign.

long time had no device for adjusting to changes in people's needs for housing. It's one thing to mass produce an increased supply of concrete apartment blocks but another thing altogether to match individual needs and preferences with individual units.

About two years ago someone in the housing bureaucracy had a brainstorm: classified ads. Consequently, the monthly tabloid *Opina*, begun in 1979, features a classified ad supplement. A few of the ads offer items for sale—refrigerators, radios, a '49 Oldsmobile ("8-cylinder, in-line, automatic, good shape")—but most of them are for *permutos,* that is barters. People couldn't be allowed to *sell* each other apartments, could they?

Thus, if you have a 2½-room apartment in one part of Havana and need a place somewhere else in the city, once a month you can place a "permuto" ad, along the following lines:

**Offered:** private apartment, terrace on street, 2½ rooms, 2nd floor, with phone: 29-5337, Lucila.

**Need:** similar or less in center of city.

—and hope for the best. Some of the ads offer two-for-one or one-for-two trades. Needless to say, the inefficiency of such a system for matching supply and demand boggles the mind.

At a sugar mill I remarked to Teresa how proud of his machine one of the locomotive drivers seemed to be. It was highly polished and obviously in excellent repair—no small achievement where all spare parts have to be free-lanced. She explained that for some months now this man had come in first in the *competi*——no, she corrected herself, the *emulacion* among the drivers. Prizes for having the best-maintained locomotive include plaques, being first on the list for vacation trips, and sometimes incentive pay. Probing a bit, I asked Teresa why they had only introduced incentive pay in the past few years. "Because the economy before was not strong enough to permit it," she explained, neatly inverting cause and effect.

Whatever the rationalization, incentive pay is now a fact of life in Cuba and is likely to be far more effective than the standard mode of encouraging work: propaganda posters. Everywhere you go in Cuba you are continually assaulted by billboards, signs, handbills, and posters. The typical American billboard-hater would go bananas!

"Work harder and better, like never before," reads one ubiquitous poster. "Ever vigilant!" proclaims another, beside the watchful figure of a member of the Committee for the Defense of the Revolution, the neighborhood gestapo. "The Party is our Teacher, our Guide, our Vigilant Conscience," reads yet another sign, this one on the lawn at the entrance to a sugar mill. Virtually every enterprise has some sort of sign out front or on its roof proclaiming support for the goals of last winter's Second Party Congress, among them "Production and Defense—Our Fundamental Objectives."

But my favorite of all remains a neon sign in downtown Havana. Lighting up a phrase at a time, in red, white, and blue, it reads:

*We welcome/the new Epoch/*
*the Epoch/of Solidarity.*

It was obviously put up prior to the crea-

**Traveling outside Havana gives one access to Cuban scenes visitors seldom see.**

tion of the Polish workers' union. We debated whether the officials didn't want to spend the money changing it or—more likely—whether the Cuban people have never heard of Solidarity in Poland.

**The Party (PCC) has very cleverly turned Cuban nationalism into its own cause, making José Martí and other early Cuban patriots into de facto Marxist-Leninists.** "José Martí urged one party for the independence of Cuba—not two, not three, only one," reads one poster, enlisting poor Martí behind the cause of a one-party state.

And as if 19th- and early 20th-century instances of "Yankee imperialism" were not enough, Castro has gotten incredible mileage out of the Bay of Pigs invasion, known by its local name of Girón. Four or five different posters allude to the "spirit of Girón" or the "heroes of Girón." This year is being celebrated as the 20th anniversary of Girón; Fidel uses the prospect of an imminent US invasion as an excuse to continue a high level of militarism and sacrifice.

The Catholic church, once ubiquitous in Cuba, has all but ceased to exist as a factor in people's lives. On several occasions we walked past large old church buildings lacking identifying signs. On closer inspection, what had seemed to be the front doors turned out to be plywood panels sealing off the entrances. Teresa was a bit defensive about the churches, pointing out several that did have name plates and explaining that few remain open because only the old people still attend.

The PCC, of course, has created a substitute religion with itself as the established church and Martí, Miguel Gomez, Fidel, and Che as its saints and gods. Busts of José Martí can be seen in little shrines at the roadside and in people's gardens. On the wall of the front room in a peasant house I saw not a crucifix but a picture of Che, martyr of the revolution. For 22 years this State religion has been inculcated by the government schools and reinforced by the government radio, the government TV, and the government press.

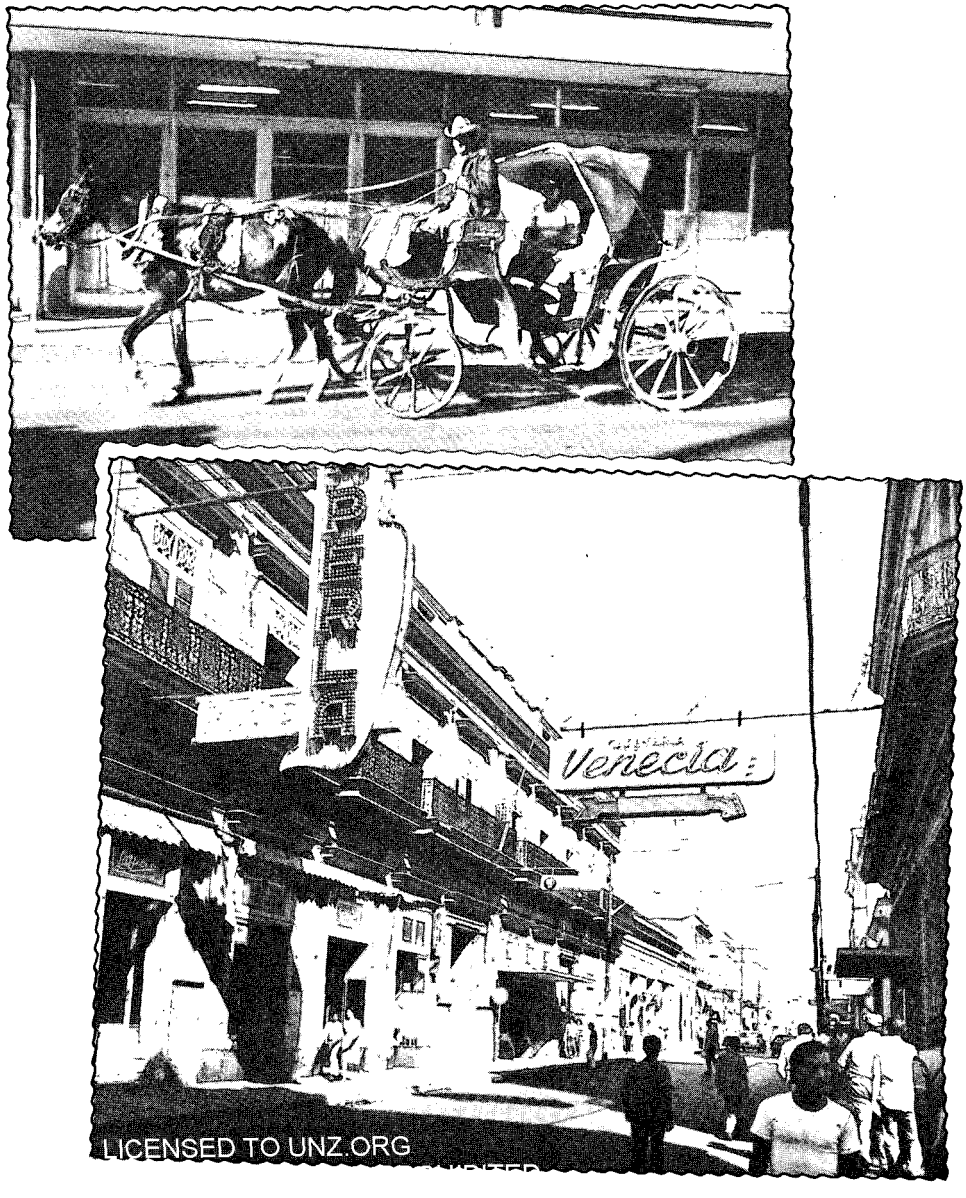
I browsed at several newsstands and bookstores in both Havana and Cienfuegos. Each newsstand was like the others, with the same very limited selection—*Granma* (the daily paper), *Opina* (the monthly tabloid), *Pionero* (a kind of weekly reader for kids), and a few Cuban magazines, along with the Soviet magazine *America Latina*. Nothing at all from the West.

The bookstores featured more variety, including a few books in English (mostly classics of literature). But all carried what looked to be the complete works of Lenin and much of Marx, together with books by various Latin American communists—all at obviously subsidized low prices. Consumer goods in general may be scarce and high-priced, but the right kind of reading matter is plentiful and cheap.

The Marx and Lenin books are among the many signs of the Soviet presence in Cuba. It hits you the moment you land at José Martí Airport in Havana. On the far side of the field were two huge silver TU-95 Bear reconnaissance bombers, with the red star of the Soviet air force as their only markings. Every plane at the terminal, including the entire Cubana fleet, was Soviet built. Between Aeroflot (USSR), CSA (Czechoslovakia), and Interflug (East Germany), one can fly from Havana direct to Tripoli, Berlin, Prague, Moscow—and Managua, a much-traveled route in recent months.

Havana itself was crawling with tourists, mostly Soviets, Czechs, and Germans. The tallest building downtown is an apartment structure housing "foreign technicians," complete with a radar dish on top. Of all the tourists, the Soviets proved easiest to spot—heavy-set, dour, and sticking close together. (One night, in Santa Clara, a group of 20 Soviets got up from a long dinner table—in unison—and were gone in an instant.) Cubans we met tended to assume we were Soviets until they heard us speak English. Then, without fail, they became quite friendly. On several occasions school children told me they were learning English in school, a point Teresa confirmed. Some are learning Russian, as well, but they're *all* learning English.

Although Soviet-built military trucks




LICENSED TO UNZ.ORG

and jeep-like vehicles were in evidence everywhere, we were kept away from any military bases. In our two days at Cienfuegos, nobody even mentioned the Soviet submarine base located nearby, let alone allow us to go anywhere near it. It was bad enough that we were allowed to see the country's "strategic industries." Every sugar mill manager forbade us from taking any photos that showed the mill structures themselves; all we could shoot was the rail equipment. Likewise at the Havana locomotive shops—"no fotografia" was the rule as far as buildings were concerned.

We didn't try to explain about the capabilities of US SR-71s with side-looking radar. Instead, we very politely pointed our cameras where told, wide-angle lenses and all. And we always dazzled the manager by taking his picture with a Polaroid SX-70—apparently nobody except the Cubatur people had ever seen such a thing before.

**Flying back to Miami across the Straits of Florida, I reflected on my eight days under communism.** How had this backward philosophy sold itself to these people? What kind of a future do they have in store?

I reminded myself that Latin America is not the United States. Cuba, like nearly all its neighbors, had been an essentially feudal society before the revolution. A hereditary aristocracy controlled most of the land—"given" to it by the king of Spain—and most of the commerce, and the Catholic church encouraged and legitimized passive acceptance of the status quo. And US policy, sadly enough, sided with the feudal overlords. For all its expropriation, bureaucratization, and institutionalized coercion, the PCC has—in fact—broken the power of the aristocracy and the church and given the people hope.

When the Cuban people, like the Poles, figure out that communism cannot deliver the goods, perhaps the Cubans will be ready for the next stage, a free society. To turn Marx on his head, in the feudalistic Third World, perhaps it is communism that can be a way station on the road to capitalism, rather than vice versa.

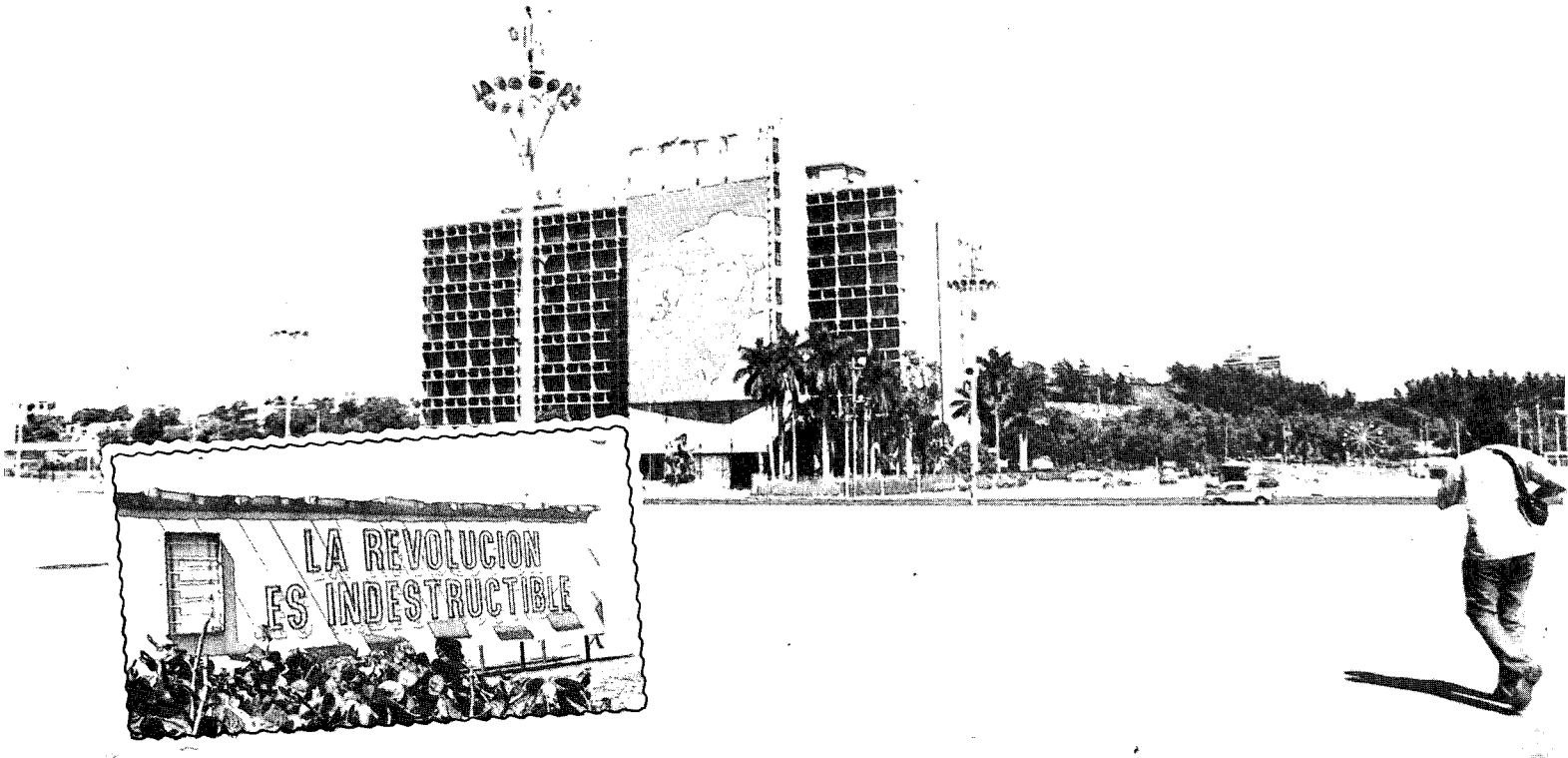
The plane droned on, and I cast about for a metaphor, some way of summing up how Cuba looks and feels to an outside observer. I thought back to days and days of sugar cane fields, the railroads fanning out into the countryside to bring in the crop, billboards urging a better harvest, the little mill towns with their dorms and shanties, elementary school, playground, and company store.

And then it hit me—the company store. Cuba's economy is based on sugar; the crop today accounts for more of Cuba's exports (over 80 percent) than it did before the revolution. And the whole country is organized around the need to bring in the harvest. In the old days people worked for a specific company—*or* they moved to the city and did something else. Today, though, a single conglomerate, Cuba, Inc., has taken over all the mills and all the other businesses as well. You work for Cuba, Inc., or you don't work. Remember, "There is no unemployment in Cuba." The whole island is one huge plantation.

It may be many years before the Cuban people realize how they've been tricked. But eventually, I'll wager, they will. And then there will be a *real* Cuban revolution—a revolution based on liberty. ◻

*Robert Poole is the editor of* REASON *and the author of* Cutting Back City Hall. *He lived in Florida at the time of the Bay of Pigs incident.*

**Havana's Revolution Square, where Fidel addresses the masses. Inset: neon sign on Havana waterfront drive.**



# Remembering von Mises

## BY ROSS LEVATTER

IT WAS ANOTHER WORLD, a different age. In America, Lysander Spooner still lived, his letter to Grover Cleveland not yet written; in England, Winston Churchill was a mere child of seven, not yet, one assumes, responsible for anyone's death. The marginalist revolution in economics, now firmly rooted in economic theory, was less than a decade old, spreading throughout the world from its focal points in England, Switzerland, and Austria, the words *world war* appeared only in fiction.

It was one hundred years ago, 1881. And, in September of that year, a child who would someday be one of the world's greatest economic thinkers was born in Lemberg, Austria. Happy centennial, Ludwig von Mises.

The world of today could hardly be more different from the world of a century ago; and in the political and economic arenas, the changes have not been for the better. Mises was born into a world witnessing the decline and decay of liberal radicalism, where Richard Cobden was dead, and Herbert Spencer, John Bright, and William Graham Sumner were aging. If today we are seeing a rekindling of that libertarian thought and spirit, it is in large part because Ludwig von Mises and a few like him carried the torch through the long dark years of our century—through the wars, the depressions, the inflations, the interventions; through the squalor and the misery—quietly fanning the flames of liberty.

Today the embers he kept alive have sparked a fire that is engulfing more and more of those gathered around liberty's banner. But Mises was not a firebrand; he was a scholar, one of first-rank eminence. His original contributions to economic science are many, and I shall mention here only three.

First, there was his application of subjective marginal utility theory to money. For the first time, an explanation of the supply of and demand for money was incorporated into general economic theory. This account which appeared in his *Theory of Money and Credit,* published in 1912, also contained the first demonstration of his Regression Theorem, proving that money cannot be arbitrarily created by governments out of anything, by fiat, but rather, to be accepted by people as a common medium of exchange, must evolve from a commodity that already possesses an independent value of its own.

Then came his demonstration, in 1922, of the impossibility of rational economic calculation within an isolated socialist commonwealth, which followed from the ultimate necessity of a freely fluctuating price system in any attempt to rationally allocate scarce factors of production to their most valued ends. Fully elaborated in his *Socialism,* this argument led to the famous controversy of the next two decades and was a seminal influence for F. A. Hayek's writings on the price system as a disseminator of information.

Last, there was Mises's magnum opus, *Human Action.* This work marked him as a systems builder and elaborated his view of economics as a deductive science of human action, a component of a wider system that he labeled praxeology.

Of course, Mises penned many more books and even more articles, some of which—his *Theory and History,* for example—are important and original contributions to their fields. We would expect no less of a man of such caliber with an intellectual career spanning six decades.

But the fact is that many of today's libertarian intellectuals remember Mises not so much as an author of scholarly treatises but as a wise and kindly mentor. For Mises was a teacher to many of our century's great economic thinkers, spanning several generations: men like Friedrich Hayek and Gottfried Haberler; Jacques Rueff and Wilhelm Roepke; Murray Rothbard and Israel Kirzner; his New York University seminar, it is said, was even attended by Ayn Rand. He was a teacher's teacher, and he was the best.

Liberalism—what Mises meant by that term—was essentially dead by the time he had reached maturity. Laissez-faire was gradually replaced by the doctrines of the socialists, to whom Mises, in his stiff and proper way, would never grant the title of "economist." But toward the end of his long life, liberalism, in a fragile and tentative way, began a rebirth, as the flame Mises nurtured took hold.

Had he lived to see his centennial, he would have seen a libertarian movement stronger than ever before in this century; stronger, in some ways, than the movement at his birth. It is my belief that were he around for his sesquicentennial in 2031, he would by then see State power and privilege toppled at last, and his dream of a free and prosperous commonwealth—a dream that fired him and that he ignited in others—at long last a reality. No birthday gift would be more appropriate or more deserved.

September 29, 1981. Happy centennial, Ludwig von Mises. ◻

*Ross Levatter, a medical student, first encountered economics through von Mises's* Theory of Money and Credit.

*Photograph by J. D. Hammond*

# It's a Company

THE WASHINGTON, D.C., Yellow Pages directory weighs in at a hefty five pounds, thanks in large measure to some 350,000 area federal employees swelling local retail, service, and professional telephone listings and to listings for 1,625 "associations," apart from numerous listings for labor organizations and US government agencies. ("Washington offices" of corporate firms like IBM and General Foods, cities like Tucson and Detroit, and states like Wisconsin and Rhode Island are listed in the Washington "white pages" telephone directory.)

To me, yellow page after yellow page of "associations" stand as mute testimony to the unraveling of the limited government model set down by the Founding Fathers, evident in the flak taken by the Reagan tax-and-spending cut package. The Washington Yellow Pages provide an index to that remarkable unofficial fourth branch of the federal government that zoomed into high gear to beat back the Reagan menace: lobbies.

Why Washington? Well, these lobbies and special-interest organizations have apparently obeyed what could be called the Willie Sutton law on why he robbed banks—"because that's where the money is." Accordingly, lobbies have flocked to the nation's capital, seat of power, influence, and, of course, money. Money naturally galvanizes many a lobbyist, especially with tightening fiscal constraints. Said Aliceann Wohlbruck, a lobbyist for community-aid programs, to the *Wall Street Journal* after President Reagan's economic message to Congress: "We're scared to death." (Federal transfer payments, including grants-in-aid to states and localities and subsidies to farmers and others, are now running in the range of $400 billion annually.)

Apart from the Yellow Pages, the lobbies-Washington symbiosis is evident from the fact that the median family income in Washington now stands as tops among the nation's 20 largest metropolitan areas, according to Census Bureau figures. The symbiosis is also evident in downtown Washington and out to its outer hub, with a building boom unrivaled in the country. Office buildings and shopping centers are sprouting up all over the place, with such newcomers as Mobil Oil and Time Books, Neiman-Marcus and Bloomingdale's.

It is also much evident in the Washington Yellow Pages. Those pages, for example, give notice of the American Meat Institute (a recent migrant from Chicago) and the National Association of Manufacturers (a recent migrant from New York), along with the National Association of Margarine Manufacturers, the National Association of Mirror Manufacturers, the National Association of Name Plate Manufacturers and so on and so on.

Then there are the National Association of Retired Federal Employees, the National Association of State Units on Aging, and the National Association of the Deaf. Lobbies all.

There are also telephone listings for the National Apartment Association and the National Association of Neighborhoods, the National Asphalt Pavement Association, and the National Architectural Accrediting Board. Naturally, there are also the National Association for the Advancement of Colored People and the National Association of Wheat Growers, the National Broiler Council and the National Bowling Council, the National Crushed Stone Association and the National Audubon Society, the National Swimming Pool Institute and the National Solid Wastes Management Association, the National Sheriffs' Association and the National Italian American Foundation.

These and many other lobbies cluster around Capitol Hill like ants around an ant hill, scurrying, buttonholing, importuning, occasionally giving testimony, always currying favor to preserve or augment their place in the sun if not their share of all those lovely federal spending goodies threatened of late by the budget-cutters' ax. So it was that the din of lobbyists in the lobbies (from whence they derived their name), offices, and hearing rooms atop the Hill rose to a veritable roar in the hour of line-by-line haggling over the federal budget for fiscal year 1982.

Many of these lobbyists are registered under the Regulation of Lobbying Act of 1946, which not only requires registration but regular financial reports to Congress from organizations and agents seeking to influence federal legislation. These organizations and agents are legion. In one way or another they represent practically everybody in the country (to my knowledge, hobos are not represented), justifying Voltaire's observation that the art of government is to take from some to give to others—which nowadays seems to mean to take from everybody to give to everybody. (New York economist A. Gary Shilling notes that the number of Americans now dependent on government pay, pensions, welfare aid, or other forms of income, including government supplier income, rose from 36.7 percent in 1960 to 50.2 percent in 1979.)

Lobbying is as ancient as government, of course. Plato admonished governors always to "give prompt audience to all comers," but he bewailed the "fawning speeches and witcheries of supplication" used to sway the judgment of the Athenian Senate. Senators accepting bribes, he maintained, should be subject to the death penalty forthwith.

In his Federalist Papers No. 10, James Madison also bemoaned contentious self-serving "factions" so full of "specious declamations" and insisted on the Bill of Rights to strengthen the limitation of government. He especially worried about "a landed interest, a manufacturing interest, a mer-

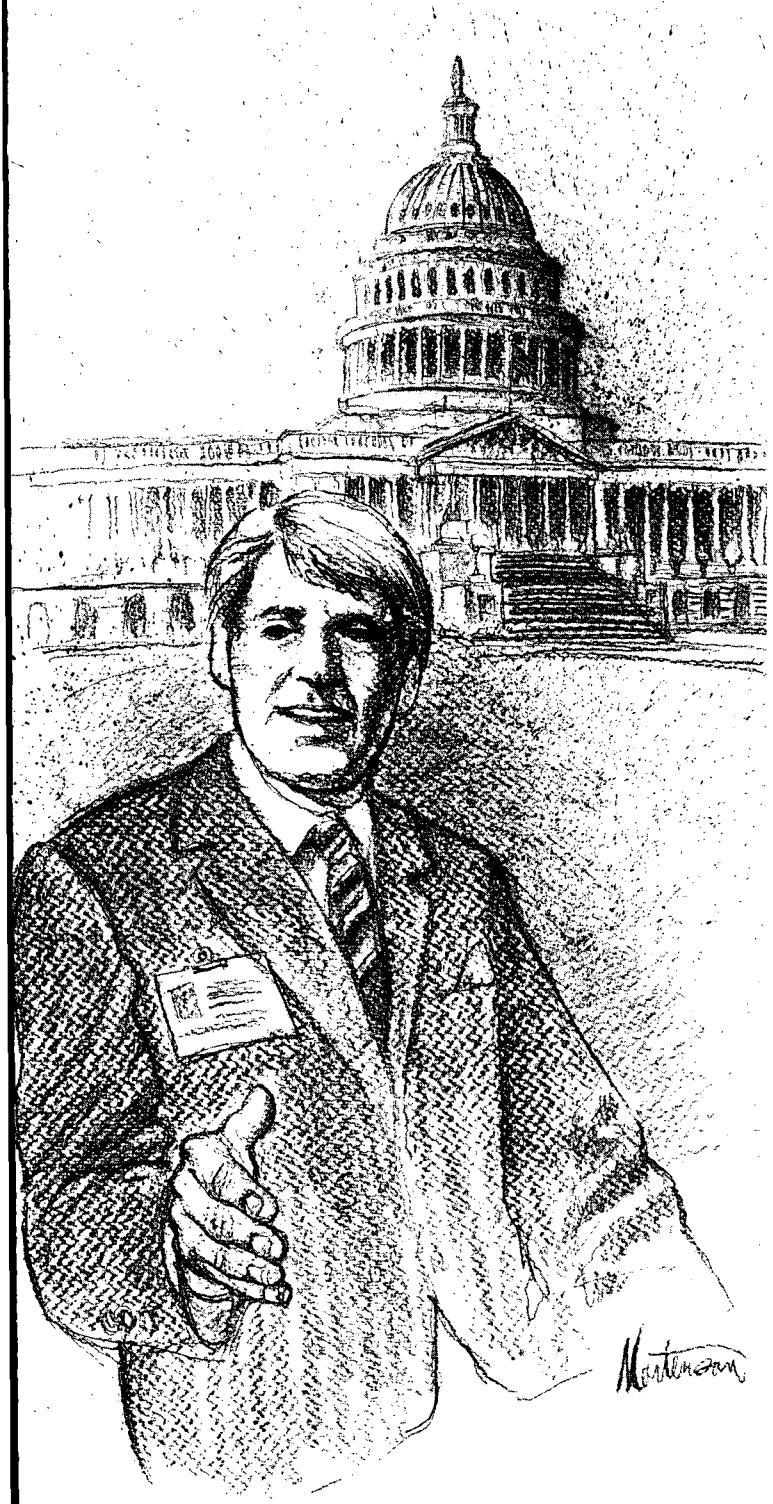


Illustration by Denis Mortenson

# Town

*Politics is the business of Washington—and lobbyists are the city's peddlers*

By William H. Peterson



cantile interest, a moneyed interest, with many lesser interests."

Obviously and most visibly these special interests have proliferated in the nation's capital like rabbits. But these particular rabbits are not always peaceful and nonvituperative as they pull this way and that. There are some 200 labor lobbies listed in the Washington Yellow Pages, for example, generally pulling one way, while more than 500 corporate lobbies are generally pulling another. There are a dozen or so gun lobbies—some for gun ownership, some for gun control. Some lobbying groups are antiabortion, others are prochoice.

The great bulk of lobbies do agree on one thing, however—more money from Uncle Sam. So the Hill gets to be quite a pressure cooker from myriad campaigns, opposing views, and cries of "Gimme."

Yet rightly, it seems to me, lobbies come under the protection of the First Amendment guaranteeing the right of petition. Petition is especially necessary in these days of big government. The endless detail and iffy trade-offs of big government baffle legislator and bureaucrat alike. As then-Senator Edmund Muskie declared: "We depend on the information and points of view of organizations and individuals to help make decisions. We could not properly function without lobbying."

But petition also can lead to abuse, both on the part of the petitioner and the petitioned. Indeed, we might well ask whether the trouble isn't that there are lobbyists but that politicians are so yielding to special interests, thus abdicating their responsibility to serve the *public* interest. Is it any wonder that lobbies have multiplied on the face of the nation's capital?

The durability of lobbies cannot be seriously questioned in this age of unlimited government. They are certain to outlast both the Reagan administration and the new 97th Congress. As Forrest Rettgers of the National Association of Manufacturers remarked: "On the Hill today there are no longer permanent friends and enemies. There are only permanent interests."

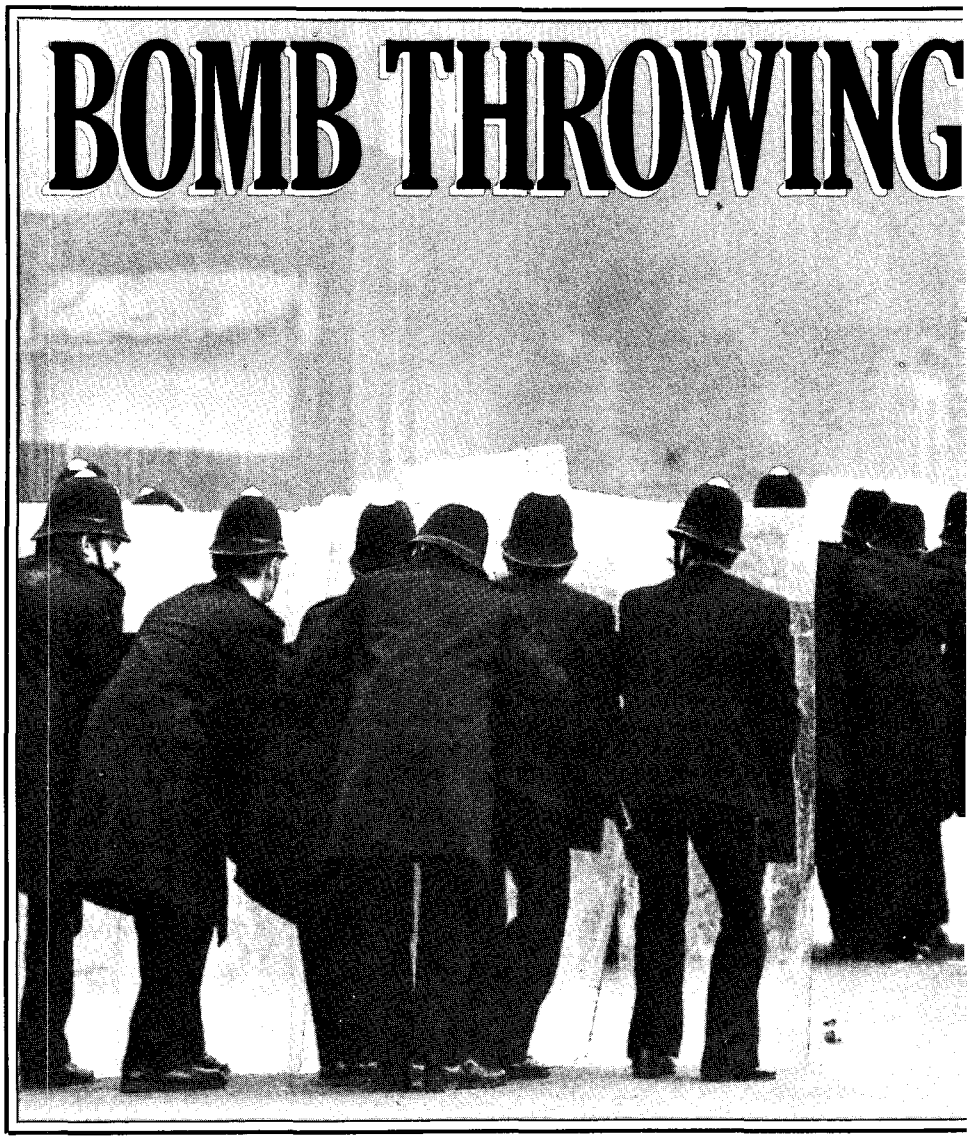
How much of the stated aim of the Reagan administration to diminish the scope of government will get through Congress and the fourth branch of the federal government—through what President Reagan has called the "political gauntlet of interest groups"? Given the propensity of politicians to serve special interests, the Washington Yellow Pages give a clue that doesn't look all that favorable. ◧

*William Peterson is the director of the Center for Economic Education at the University of Tennessee at Chattanooga.*

*REASON's correspondent reports from the front line*

# BOMB THROWING

## BY EBEN WILSON



TWO POLICEMEN patrolling on foot in London's Brixton area stop a black youth clutching his chest. Fresh red blood oozes from between his fingers. They find out that he is trying to get home after being stabbed outside a local discotheque. The police call for assistance on their radio. A police van arrives. The police help the youth into the van for first aid. Suddenly the van reverberates to the sound of a volley of bricks hitting the roof. A group of blacks nearby conclude that the police are making an arrest. Word of the confrontation gets around.

Two policemen in a patrol car in Liverpool's Toxteth area watch a young motorcyclist speed away. They give chase and pull him over. As they question the motorcyclist, who is black, a group of youths crowd near and taunt him. A missile arcs from the crowd and lands at the policemen's feet. The crowd cheers. The policemen call for assistance. Nearby, other youths hear the cheers. The word has got around.

Those two incidents have been traced as the actual sparks that flared into the now infamous British riots. Headlines screaming around the world claimed that near civil war had broken out on Britain's city streets. Night after night the British watched their TV screens with anger and dismay as rioters fought ferocious battles with police. Youths looting clothing and stereo stores were filmed openly, and horrified viewers watched the police frantically beating out flames on their colleagues' clothes as rioters used a new lethal weapon for mainland Britain—the Molotov cocktail, a gasoline-filled bottle plugged with a rag as a wick, ignited, and hurled.

As the flames died down, opinions and solutions were tabled in pubs, clubs, and the Commons. It became clear early on that the sporadic rioting in 15 cities around Britain following the two main riots in Brixton and Toxteth was a poor imitation of the main event. They were triggered more by media coverage and a desire to be noticed that by any widespread discontent. That left the pundits with racism, unemployment, and the police to blame.

Racism has been quickly discounted. TV films show clearly that the rioters were racially mixed and definitely not fighting amongst themselves.

Unemployment became more difficult to support as the main cause when the juvenile courts filled with dozens of 12- to 15-year-olds, and even a few 8- and 9-year-olds. The prime minister, Margaret Thatcher, stridently denied the charge leveled in the House of Commons that the older rioters were driven into violence by unemployment caused by her economic policies. Reports from the streets also indicated that those involved did not see themselves as advocates for Britain's three million unemployed.

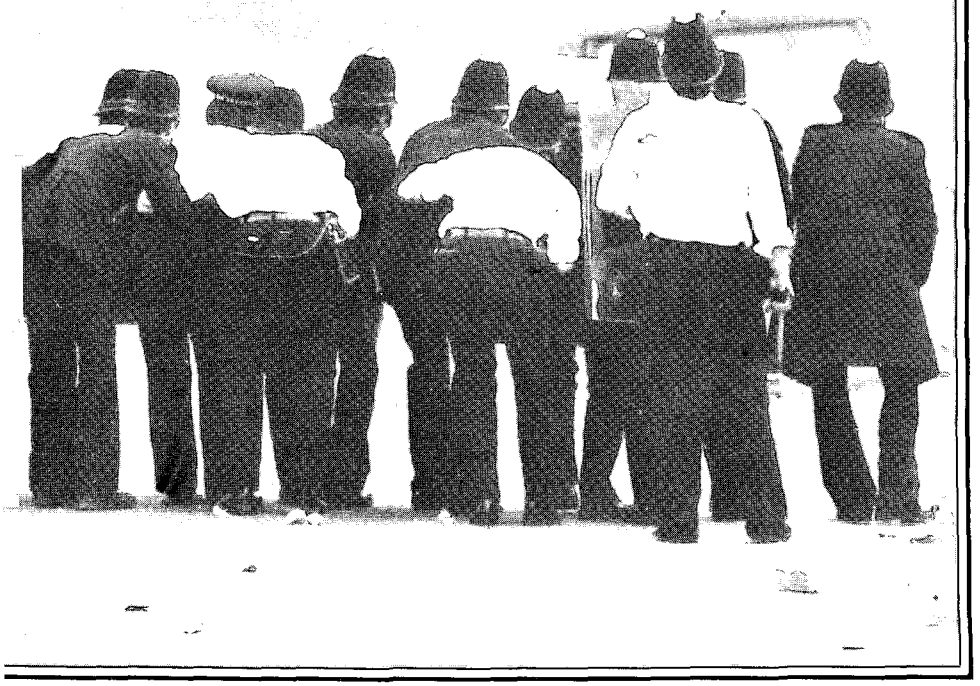
It was soon realized that the finer points of monetary policy are not exactly burning issues in the rioters' minds. Their complaint is against all authority and any government, whatever its political color. The few left-wing rabble-rousers who did join in the riots to promote their ends were given very short shrift indeed from fellow rioters who found them out. Even Britain's leftist Labour Party quickly dropped the unemployment charge as attention focused on the next fall guy—the police.

BRITAIN'S INNER CITIES have suffered from growing unemployment for many years, and they do have racial problems. The police have to keep strict watch on streets trafficked by loitering groups of kids and immigrants with family and work problems and plagued with considerable petty theft and sporadic outbreaks of violence.

The solution to this has been a return to the "bobby on the beat" or, officially, "community policing." The best results have been obtained with older constables, perhaps because their experience lets them filter the excesses of the community, stemming the most antisocial behavior and letting minor in-

*Photograph by Paul Dong*

# IN BRITAIN: WHY?



fringements pass with a caution or reprimand.

But the "bobby" is fighting an impossible battle. When anything serious happens, he has to use the weight of the law and thus antagonize the very element he is hoping to pacify. The common complaint of the street kids is, "Oh yeah, one day they like you, and they're all smiling like, then the next day you're in the nick [jail] for doin' something you didn't do." In these communities the feeling is that the police can do nothing right.

Over the longer term, this feeling develops into complaints of harassment, which are undoubtedly valid when viewed from the perspective of a street kid who spends his day "loitering with intent." Intent to do what? Well, he doesn't know, but laws based on middle-class values of behavior say loitering is wrong per se. But what should we expect an unemployed black youth to do—go to a midday string quartet recital in St. Martins Le Grand? He can hardly sit still for 30 seconds without fidgeting. His fidgets make the police fidget too, and that's where the trouble starts.

The police pump him on what he's doing, ask him to move on, and arrest him now and then. As a result, we do not yet have a Harlem or Watts, where middle-class people cannot safely walk the streets at night. Instead, we now have riots—explosions of frustration against a police force seen to be repressive, interfering, unsympathetic, and often racist.

THE RESPONSE from the government has been predictable. The government believes it must *do* something. So fine statements were made about "enabling the police to do their job"— which translates into giving them more equipment.

As luck would have it, experiments with the cruder forms of "the technology of repression" have had a testing laboratory in Britain for some years: Northern Ireland. Water cannons, tear gas, and plastic bullets have all failed to quell disturbances there. Many say that they *increased* the violence before their use was abandoned. Fortunately, the police themselves don't believe in heavy artillery, knowing full well that it further widens the gulf between themselves and the people they can control only by consent.

They have opted in the end only for visored crash helmets and riot shields that cannot be set on fire by Molotov cocktails. From Northern Ireland they have imported one tactical maneuver—repeated high-speed forays in vehicles into gathering crowds to scatter groups into side streets and snatch ringleaders. Ugly scenes in Manchester, following the Liverpool riots, were quickly suppressed by using this technique.

The second line of government "action" has been the fact-finding mission. One, under high court judge Lord Scarman, has been a conspicuous success. Even without his full-length wig, Lord Scarman has the style and the experience to bully a senior police officer or cajole a surly black teenager into telling the truth. He conducted his independent inquiry in Brixton, where he won the hearts of the frustrated residents. As a result, he had the terms of his inquiry extended to the whole country. But his report will not appear for some time.

The other missions have been carried out by politicians. Prime Minister Thatcher has been to Toxteth and Brixton, and Environment Minister Michael Heseltine stationed himself in Liverpool for a week to "look and listen." TV viewers saw him standing aghast in front of some devastated public housing that has been in a state of decay for six years.

Unlike Jimmy Carter in the Bronx, Heseltine couldn't suggest that more government money should be spent on the problem. The plain truth is that his government doesn't have any money. Strapped tightly into a monetarist straightjacket and limited by government spending plans that need all hands on deck to stop spending from going out of control, the cabinet's strategy over the riots has been clear. As politicians they must appear to be doing things and showing concern; as part of their economic strategy they must not do too much. To do so might arouse criticism that their economic policies were respon-

*(Continued on p. 47.)*

# GAMBLING ON TRUTH

## Joan Bowden told her bosses about waste, fraud, and abuse in a "model" CETA program. Regulations to protect whistle-blowers didn't help her at all.

**BY RANDY FITZGERALD**

JOAN BOWDEN was 38 years old and recently divorced when she took a job last December 1 as a field monitor for a federally funded, county-run program. She is a petite, vibrant, charming woman, self-described as a "disenfranchised housewife," with a degree in psychology and training as a paralegal. She was hired, despite being overqualified and inexperienced, to monitor seven government programs. She approached the job with a characteristic idealism and enthusiasm that apparently marked her early on, in the minds of her superiors, as dangerously naive and a threat. In three months and a day, Joan Bowden was fired from the job—for insubordination, according to her bosses; for uncovering fraud and waste, according to Bowden.

It was in 1973 that, with the best of intentions, another new federal bureaucracy was created to give hope to the poor. Congress anointed it the Employment and Training Administration, tucked it into the Department of Labor, and vested in it powers and funding to spread a system of employment programs so pervasive and accessible that it was thought that finally those feeble in mind, body, or spirit might be lifted from the nagging sludge of poverty and despair.

This was CETA—the Comprehensive Employment and Training Act program. Like all such welfare programs, this one grew in cost, starting out with $2.3 billion in its first year and more than tripling by 1981. And like other welfare programs, it was plagued by charges of abuse and ineffectiveness.

So it was not surprising that in the fiscal 1982 budget, President Reagan, with Congress's blessing, sheared from CETA its Public Service Employment program, which in 1981 is doling out a third of CETA's nearly $7.7-billion budget to keep a couple hundred thousand people employed. These make-work jobs range from street sweeping and sloshing along streams looking for pollutant discharges, to performing as clowns and jugglers in a San Francisco circus and, for the wife of former Nixon aide John Ehrlichman, working for the Seattle Symphony for $10,000 a year. Although this part of CETA has been chopped out by the budget cutters, the other part of its program—job training—survives, with a $3.5-billion budget for fiscal '82.

It is a county-run CETA job-training project that Joan Bowden charges is not giving taxpayers their money's worth. The place is Atlantic County, New Jersey, encompassing Atlantic City; recently commended by the Department of Labor for running one of 22 model CETA programs in the nation. What Joan Bowden found wrong with Atlantic County's CETA an inquisitive reporter can find, too.



*Photographs by Alvin Serota*

*Whistle-blower Joan Bowden*

## DISILLUSIONED

When gambling was legalized by New Jersey and casinos opened in Atlantic City three years ago, residents were at first swept up in the gold rush of opportunity. Tourism had long been the economic mainstay in the area but for 50 years had been a declining industry. People were no longer drawn the world over to Atlantic City's beaches, restaurants, and live entertainment, and by 1978 unemployment had mounted to 17.5 percent. Gambling, it was hoped, would spark a revitalization of the East Coast's once-famous vacation and convention center, providing reward and prosperity for the rich and the disadvantaged alike.

So with hope and the wheels of fortune spinning in their eyes, people were lured in ever greater numbers to learn the art of dealing craps, blackjack, and roulette; repairing slot machines; and cashiering. Atlantic County CETA, too, decided to gamble on the area's economic fortunes.

Soon hundreds of job trainees were enrolled in casino-related classes. In the first half of 1981 alone, CETA had 942 people—60 percent of its trainees during that time—in such classes. Each of them is paid $3.35 an hour for attending the classes. As much as $1,000 per class goes to the private schools that train them. And CETA picks up the tab for the $125 license fee the state gaming commission requires of casino workers. And what do CETA, the job trainees, and the taxpayers have to show for this assembly-line approach to the job market?

As of March 31, according to a report issued by the New Jersey Casino Control Commission, Atlantic City's gaming schools had graduated 9,645 students—4,200 more than the number of job openings. The report faulted the gaming schools, and by direct implication CETA, for "turning out too many students without sensitivity to actual market trends."

Ed Zabielski, a tall, quiet, dark-haired man in his early 30s, enrolled in one of CETA's casino cashiering courses after having been through two previous CETA training programs. He says that he and the other students had been led to believe by CETA "manpower specialists" that they at least had the prospect of employment after graduation. But the first day in class his instructor, an unemployed school teacher who worked a casino graveyard shift, announced that "maybe one person out of 12, if you're lucky, will get a job in this business." Zabielski felt cheated and deceived, and as each week in the eight-week, 160-hour course passed, there were other things to fuel his resentment.

"What really hurt me is that I was conscientious and attended class regularly. We got paid for 160 hours even if we never showed up. When the course ended, everybody in class got a certificate even if they never passed the test. I got an A, and everyone who got a D got the same certificate. We were told that even if we didn't want a casino job we had to apply for a license. CETA paid the $150 filing fee [it's actually $125] for each of us. They begged people to apply. I don't know anybody who ever got a job through CETA. It just puts you back on the unemployment line. I'm worse off now than when I started."

## RIPPED OFF

Fifty-five-year-old Mary McPeak told me that she was referred to CETA by administrators of a home for battered wives, where she had taken refuge from her increasingly brutal, alcoholic husband. She enrolled in a class called Life Skills, designed to prepare CETA participants for seeking and holding employment. She had never been exposed to a government job-training program before, and what she saw saddened and disillusioned her.

"I was the only one of 12 in my class that hadn't been in the program before. Even our instructor told us, 'Oh, you

"I was told that I was too honest," says Bowden. "I was told that fraud goes on all the time."

aren't going to get a job through this course.' She told us, 'If you all solved your problems and got jobs, where would we [instructors] be?'

"I could have been anybody and gotten into CETA. They don't ask if you own property. You could be a millionaire and get a CETA job. I didn't know that people were out to rip off the government like this. You get paid for having kids. I got food stamps for being in CETA. When Reagan announced the budget cuts, they doubled my food stamp payments to $120 a month. Now I know where the taxes go. I know how to play the system now."

"Playing the system" is a phrase often used by CETA participants. For many of them, it describes their entire outlook on life. Many take a job just long enough to qualify for unemployment. Then when unemployment benefits run out, they enter a CETA training program, where they are paid to sit in a classroom, often times even if they don't show up, to learn a skill that few of them will ever utilize.

Although CETA regulations state that job trainees cannot earn more than $30 a week in outside income nor be enrolled in any CETA program for more than two and a half years in a five-year period, many of the Atlantic County trainees I talked to or heard about could not meet these standards. Even fewer instances could be cited when CETA administrators rigidly enforced their own rules. These are some recent Atlantic County CETA participants: one woman is a professional dog groomer; another graduated from Penn State and works as a school teacher; three or four work as cab drivers and waitresses; one woman is a night guard at a reform school. There is one 24-year-old fellow who wears designer suits to class and has been in at least six CETA courses; he is a self-ordained minister—the source of his obvious outside income?

Sherry Oakley is a pseudonym for a welfare mother of two who entered her first government job-training program 12 years ago, when she was 19. She has developed over the years some acute observations about the job-training system and what it does to the lives of its participants.

"CETA needs people, so they break the rules. It's the same with welfare. They didn't want me to get off. I know a person who went to CETA to be a bartender. He was 35 and had been a failure all his life. He got his bartendering certificate. Now he drives a truck. They didn't prepare him to be anything other than a failure.

"I'm a positive person. I knew why I was there. The reason I went to CETA was to learn what I could be. All I learned is that I could be a CETA student.

"They're training us to be nothing. We get meaningless certificates that aren't recognized by anyone other than the school we got them from. Half the people are from out of state who landed here to go on CETA and welfare. I never realized there were so many people broken by the government. They encourage you to be nothing. They don't motivate people, they cripple them."

Andrew Thompson is a pseudonym for a CETA instructor who has been training people for hotel management positions for nearly 30 years. During the few years he has worked with the Atlantic County CETA program, he has watched in amazement and with disgust as CETA has put students into his hotel management classes to fill quotas.

"I thought CETA was for unemployables and the poor. But when I talk to these people I find most don't have the want or need. Some are working. Some have no interest in being in my class. I had one man who had two jobs. Why the hell did he get in the program? I've got a guy who's a fashion designer. None of them wanted to be in the hotel business. CETA misled them during interviewing. None of them have the right attitude. Their backgrounds aren't being checked. If I can salvage one out of 15, I've done well. For 95 percent it's an easy way out of the job market.

"One woman I asked, 'How come you're in CETA?' And she said she was along for the ride. She had a job already and CETA was just a part-time job. There aren't enough jobs in Atlantic City anyway for the people I'm putting out. CETA is simply filling quotas. It gets me hot under the collar to see them in the class wasting tax money. I don't think the program is policed properly. The people now in the CETA program should all be dismissed immediately."

## THREATENED

When another employee of Atlantic County CETA voiced views similar to "Thompson" 's—but attached her birth-given name to the criticism—reaction came swiftly and predictably in the form of reprimand and then dismissal. Joan Bowden didn't go into CETA to be a whistle-blower. But what she saw, once there, tripped her conscience, and the CETA bureaucracy could not tolerate her honesty.

When Bowden came on board with Atlantic County CETA in December 1980, she was told that she could expect a week of orientation. The only orienting she got was on how to operate a photocopier and where to fill her coffee cup. For the first few days she did nothing but stand around and ask what she could be doing. No one seemed to know or care. When finally she was given a list of seven training courses to monitor, she discovered that the other three field monitors—each paid $9,200 a year—apparently were not accustomed to working with someone both diligent and dedicated.

"Everyone told me to slow down, don't work so hard. I thought I was doing a good job, but they were saying my reports were too long, please don't put this in your report. I was really dumb. I thought they didn't know how to do it and I was embarrassing them.

"Each field monitor had five or more courses to monitor. Some monitors just called in to get attendance. They never worked. I don't know where they were all day long. Some of the schools told me they never saw the other monitors. When someone was dropped or terminated, they would white-out the name on the original list. I never knew why they didn't want me to keep my attendance sheets. I was told that I was too honest. I

was told that fraud goes on all the time."

But Bowden didn't believe it had to be that way. On February 17, 1981, she wrote a two-page memo to Atlantic County's affirmative action officer outlining several recommendations for improving the CETA program, including more clearly explaining courses to trainees so that those with little or no interest or aptitude would not end up wasting tax money on something that would do them no good. Six days later, county CETA administrators suspended Bowden for three days without pay.

It was not for incompetence—or insubordination, chronic absenteeism, neglect of duty, intoxication, willful violation of civil service statutes or rules, or any of the other possible causes of action listed on Atlantic County's "Employee Warning Notice"—that Joan Bowden was reprimanded. Instead, under "Other," one of her bosses specified "failure to follow procedures." That is, as an accompanying explanation stated, she had gone outside the normal chain of command with her suggestions for improvements. She had gone, explains Bowden in her defense, to the person who was regarded as the ombudsman for the Department of Manpower in which she worked—a person who had earlier befriended her, assuring her that any problems with this, her first-ever paid employment in her 39 years, could be brought to him.

The three-day suspension made Bowden even more determined to see that her views were heard. She composed a seven-page memo going into greater detail about how and why CETA operations should be reformed. She pointed out that the other field monitors were absent much of the time and suggested that the importance of this job be acknowledged by the CETA bureaucracy. She also recommended that trainees "who blatantly verbalize that they have no intention of using the skills or training taught in these programs, be terminated immediately." She added emphatically, "That, to me, is fraud."

This time she gave the memo to her immediate superior. On March 2, 1981, her first day back at work after her suspension, Atlantic County CETA fired Joan Bowden. On June 3, her dismissal was upheld by the Atlantic County personnel officer on grounds that she had, as charged, shown "a consistent pattern of insubordination."

Dismayed and incensed, Bowden located a phone number for Secretary of Labor Raymond Donovan and called him at home one evening. Donovan, she reports, seemed sympathetic and promised action on her behalf. She was contacted by an assistant in the Labor Department's Office of Civil Rights, who listened to her story. Since she had not been discriminated against as a woman or for being of a minority group, she was informed, there was nothing that office could do.

The Department of Labor's inspector general dispatched two regional investigators who interviewed Bowden and wrote a report. While they would not talk to me about the response they received from the Employment Training Administration, they are known to have expressed the opinion privately that ETA is ignoring their findings.

On July 8, Bowden wrote to the Department of Labor requesting that her case be transferred to the US Attorney's Office. She also wrote to the FBI asking for that agency's intervention. Her patience, as well as her finances, had been exhausted.

Under CETA rules and regulations published in the Federal Register (section 676.82, Protection of Informants), any employee of the agency who furnishes information relating to fraud or abuses in the CETA program is classified as an informant, automatically protected against discharge or retaliation. Clearly this rule should have been applied to Joan Bowden. I queried Phil Mason, spokesman for ETA in Washington, about Bowden's termination. He was not even aware that protection of informants had been mandated for his agency.

There are other discrepancies between CETA practices and the agency's stated administrative policy. For example, Mason says CETA doesn't direct its trainees to food stamps and other benefits or in any way encourage the trainees to apply. "We don't say anything about that," insisted Mason. But Bowden has photocopies of form letters that Atlantic County CETA distributes to trainees enabling them to obtain food stamps.

"Virtually nobody understands the regulations, and no one can explain them," says James Lewis, former acting director of Harris County CETA in Houston. "A field monitor was periodically sent to Houston from the regional office in Dallas to offer advice on how to interpret regulations. But he would simply say, 'We really don't know what the regulation means.' "

Joan Bowden may be the unusual CETA employee, but Atlantic County's CETA turns out not to be so unusual. A pattern of mismanagement, political manipulation, fraud, and failure can be found in CETA training programs nationwide. Just in 1980, this sampling of abuses came to light:

- *Pittsburgh,* reported in the *Los Angeles Times,* February 14, 1980—an artist's guild received $23,000 in CETA money to train six elderly Pittsburgh residents as weavers. The two women instructors—paid another $16,000 by CETA to teach—went door-to-door in several neighborhoods looking for prospective applicants. They found only five who met the age and poverty qualifications. Three dropped out before the program was completed. CETA calls this project a success because the two elderly women who graduated learned "a skill they otherwise would not have."
- *Washington, D.C.,* reported in the *Washington Post,* August 2, 1980—A General Accounting Office report revealed that the District of Columbia wrongfully paid more than $425,000 in CETA training funds to 39 Lorton Prison inmates. Many of these prisoners were not eligible for release until the early 1990s. One had been sentenced to serve until the year 2003.
- *Virginia,* reported in the *Washington Post,* December 13, 1980—Allen and Dorothy Blitz of Martinsville, a small town in southern Virginia, are both communists who publicly advocate the violent overthrow of the US government. Soon after being indicted on felony riot charges stemming from a shootout with the Ku Klux Klan that left five dead in Greensboro, North Carolina, the couple were enrolled in a CETA program at $3.10 an hour to learn masonry and carpentry.
- *Arkansas,* reported in the *Detroit News,* May 9, 1980—A state program to train the unemployed to cut firewood consumed $69,000 in CETA funds but resulted in only 12 cords of wood being cut. That works out to $5,750 per cord, or about $5,730 above the market price.

"You're not going to clean them up," Bowden says of the CETA bureaucrats. "You have to cut them out. They are corrupt, and the parasites dominate."

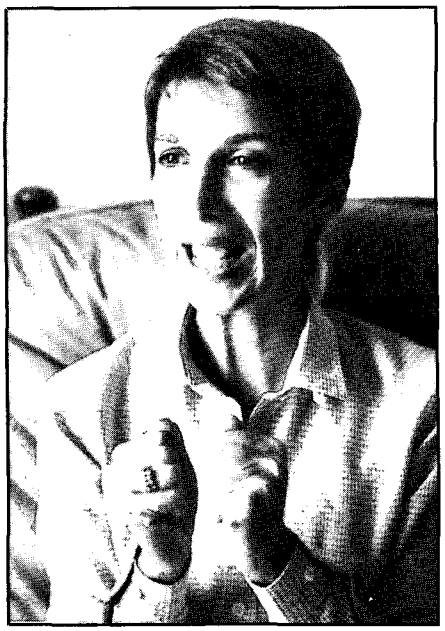
• *Houston,* reported in the *Houston Post,* April 1, 1980—Regional Labor Department administrator Ricardo Flores all but conceded that CETA has been a disaster. In an interview, he admitted that less than 45 percent of CETA trainees in the southwest region, including Houston, had ever found gainful employment.
• *Chicago,* reported in the *Chicago Tribune,* September 11, 1980—Five employees of the Illinois Bureau of Employment Security were indicted for taking bribes from persons wanting placement in CETA training programs.
• *San Francisco,* reported in the *San Francisco Chronicle,* March 22, 1980—Eleven Santa Clara County job-training centers were placed under FBI investigation for theft and embezzlement of CETA funds that, according to an FBI spokesman, "could involve millions of dollars."
• *Los Angeles,* reported in the *Los Angeles Times,* March 5 and April 1, 1980—The Center for New Corporate Priorities was suspended from the CETA program after a Department of Labor probe into charges that dozens of ineligible persons had participated in its CETA training program and that many had been used in political activities such as campaigning in Santa Monica for rent control. Most of these CETA participants apparently had college degrees and a history of successful employment. A few weeks later it was revealed that the DOL was investigating the East Los Angeles Community Union for having allegedly used some of its 150 CETA trainees in the reelection campaigns of President Carter and Mayor Bradley and for work involving property owned by ELACU administrators.

## INDICTED

At least 10 probes have been conducted by the General Accounting Office, the congressional watchdog agency, into various aspects of the CETA program since 1973. Two of these reports in particular have relevance to the abuses turned up in interviews with Atlantic County participants.

On July 7, 1978, the GAO released its findings from an investigation of 12 training programs in six states. The picture that was painted is a devastating indictment. According to the GAO:
• Trainees were "enrolled in training for which they were neither academically nor physically prepared."
• Trainees were often placed in courses simply to fill quotas, even when some of these courses cost $15,100 and more per student.
• The courses received "limited and superficial monitoring" from CETA.
• About 49 percent of 2,000 trainees sampled were alleged to have later found jobs, but "many obtained jobs not related to the training received," and numerous local CETAs made a practice of inflating their job placement figures. Furthermore, the "participants' wages after training increased only slightly over pretraining wages," most by as little as 4 percent.
• Many of the training courses "were not justified by available labor market surveys." Few sponsors even conducted surveys before churning out trainees in a particular field. Even after a CETA course in welding in Lowell, Massachusetts, was found to have a job placement rate of only 14 percent, the course was continued for another fiscal year. Half of that 14 percent were trainees placed in jobs unrelated to their welding course, most as taxi drivers and housekeepers.
• Of the programs GAO reviewed, fully 31 percent of training graduates went on unemployment after the courses ended.

On March 27, 1981, the GAO released another report whose findings are summarized in its title: "Weak Internal Controls Make the Department of Labor and Selected CETA Grantees Vulnerable to Fraud, Waste and Abuse." GAO investigators visited the Employment Training Administration headquarters in Washington, D.C., and selected at random 29 items of office equipment for review—8 were missing, including a photocopy machine, typewriters, and calculators. At CETA's local level of operation, such theft was found to be commonplace, but minor compared to other types of abuses.



Investigators found that one city-run CETA, unidentified in the report, has used CETA training funds to finance its entire city payroll of $329,000 for a week. Another unidentified CETA sponsor exceeded its CETA grant by $577,498 because it had never bothered to establish a budget. A second city-run CETA diverted $25,561 in training funds to purchase 1,024 water meters for installation in private homes.

The report revealed that erroneous and excessive wage payments to CETA trainees were allowed, if not encouraged, by each of the local bureaucracies examined. One trainee was found to have been paid $5,800 for a period of eight months after his termination from the CETA program.

## VICTIMIZED

If these incidents are typical, and if Atlantic County CETA truly does represent one of 22 "model" programs in the nation, we must seriously doubt whether the poor are benefiting from CETA and whether taxpayer interests are being well served. CETA estimates its per pupil cost at $7,000. The evidence is accumulating that many of the trainees are repeaters, professional job-training students playing the system, using the program as a source of additional income

rather than for entrance into the job market. The various CETA bureaucracies appear to be filling quotas by recycling people through its programs to keep funding levels high.

Tuition for the Atlantic County CETA travel-tourism course runs in excess of $3,000 per pupil. The hourly trainee stipend brings the total closer to $6,000. "Sherry Oakley" remembers her instructor telling the class not to expect any jobs from the training: "She said that travel-tourism should be a hobby—that we should marry a doctor." Was CETA set up to teach hobbies to the poor and to those who masquerade as poor?

Far too many CETA graduates, the serious ones in search of advancement, end up as maids, taxi drivers, and manual laborers. Is that what taxpayers spend an average of $7,000 per pupil for, to raise and then shatter the job expectations of the poor, training them for jobs that either don't exist or were never meant to exist for them at all? "It's better not to give us a dream if it's going to be taken away in nine months when we leave CETA," says trainee "Sherry Oakley."

For every CETA success story, for every training-program graduate who has used CETA as a slingshot to making a success of his life, there are far too many failures. Most of the well-meaning people are hurt or crippled by the CETA system, while the others approach this jobs program, as they have every other government cup of altruism, with the worst of parasitical intentions.

Joan Bowden has as much cause for bitterness as any of the disadvantaged persons she worked with in CETA. She is jobless, trying desperately to clear her name. She has spent $600 in legal fees, another several hundred dollars in phone calls, attempting to prove that she was fired for telling the truth, for revealing fraud, waste, and mismanagement. Her predicament illustrates why so few government employees can muster the courage to become whistle-blowers.

Meanwhile, CETA lives on, reduced but not smitten by the Reagan search for wasteful elements in the federal budget. After each media revelation, after each GAO report, the politicians vow to reform CETA. But the same bureaucrats who failed to see—or condoned or even perpetrated—the abuses retain their jobs, even as budgets are squeezed.

"You're not going to clean them up," Bowden says of the CETA bureaucrats. "You have to cut them out. They are corrupt, and the parasites dominate. They look upon the CETA trainees as bodies, nothing more—$x$ amount of bodies means $x$ money. CETA doesn't care if they learn anything. They are just victimizing the poor and the handicapped to perpetuate themselves and the agency." ◻

*Randy Fitzgerald is a free-lance writer. This article is a project of the Reason Foundation Investigative Journalism Fund.*

# Wilson

*(Continued from p. 41.)*

sible for the riots in the first place.

Such is politics. Of course, the politicians' strategy doesn't come within a mile of the real roots of the problem. But by being forced away from other remedies because those have failed, they may yet be forced into seeing the truth.

The problems of Britain's inner cities may have been catalyzed by the present recession, but the rot has been eating at them for many years. Inner-city revival programs have failed dismally as industrialists and homeowners have headed for green-field sites away from the old industrial centers, beginning the well-known cycle of high local taxes to prevent decay, leading to a further exodus, and so on.

MEETING YOUNG PEOPLE in their teens and early 20s in the inner cities, the overwhelming impression for someone inculcated with the optimism of the middle class is of their utter lack of aspirations to a better future. The reason? Quite simply, welfare. Not just handouts, but the whole apparatus of government programs that the welfare state has built around the lower-income groups in the inner cities of Britain.

I believe we are about to reap the horrible legacy of 35 years of social democracy, a vicious philosophy that punishes the successful to donate to the unsuccessful, who are then ruined in the process. The youths who storm the streets of Liverpool were bred by parents who have been protected by subsidized housing and subsidized industries; by family, unemployment, and pension benefits; and by all the other "free lunches" of the welfare state. The values of these families have gradually been eroded by a state beneficence that devalues all that a free individual should be striving to secure for himself and his family. This also ensures that the disciplines of holding on to liberty are not passed on to their children.

These children emerge into a world that is decaying because of the rigors of the other side of this beneficence: high taxation, ameliorated by thousands of deductions and exemptions (voted for by the well-off) that make it cheaper for the enterprising to indulge in the conspicuous consumption of Rolls Royces than to risk investment in wealth-creating activities that benefit everyone.

The children who are throwing Molotov cocktails in Liverpool are poor not because they have no money (I know voluntary Christian workers who live on less) but because in terms of human capital they have no wealth—no enterprise, no optimism, and often very little literacy or numeracy. They need not and cannot make investments for the future because investment requires that they forgo consumption. This, as wards of a welfare state, they are not free to do. Thus, they act rationally in choosing to spend other people's money received for nothing. But in doing so, they lock themselves into their low-wealth predicament.

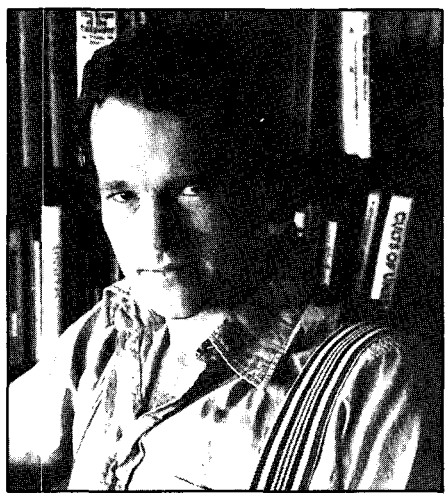
We in Britain are now wasting part of an entire generation. We are creating poor who will stay poor forever. George Gilder, in his book *Visible Man,* put it well when he said, "What poor people need most is their poverty. You take it away and they stay poor forever. . . . The problem is that welfare wastes people." Until we remove the welfare burden from the young we cannot help these youths who are disenfranchised from any access to the aspirations that enterprise generates. The answer is not to "do something," but to get out of the way.

Britain has been lucky not to have seen unrest like this before, but that seems to have been due only to unintentional police repression. Our only way out now is to dismantle the welfare state. I fear this will not happen. There will be more riots in Britain. ◻

*London-based journalist Eben Wilson was associate producer of Milton Friedman's TV series,* Free to Choose. *He writes and produces documentaries and dramas.*

# Conventional Objections

# viewpoint



**James Dale Davidson**

Whenever the phrase "constitutional convention" is uttered in Washington, the reaction is about what one would expect to a query about an outdoor privy at a garden party. "Yuk. You don't mean it? Not a constitutional convention."

One expects as much from Lane Kirkland, Tip O'Neill, or the head of the National Endowment for the Arts, whoever he may be. One would like to expect better of George Will. Will, after all, is supposed to be a political columnist who can think. His sentences are sentences, by golly, and he has committed to memory at least a third of Bartlett's *Familiar Quotations*. Where the constitutional convention issue is concerned, however, I have come to believe that Will's imagination is engrossed, not by fine literary allusion, but by the refrain from an old rock tune. "Run run run runaway" seems to be dancing in his head.

Several times over this past year Will has written columns for the *Washington Post* raising alarms about the prospect of a constitutional convention. The silliest of these appeared on May 21. It inspired me to wonder why the adjective *runaway* and the noun *convention* have come to be coupled together automatically, like an epithet in ancient poetry. The Greeks always described Hermes as "the slayer of Argos," but they had good reason. Hermes *was* "the slayer of Argos." Less poetically, newsmen today always describe the House Ways and Means Committee as "powerful." That, too, is understandable. The Ways and Means Committee *is* "powerful." But why is Will trying to stick us with this dopey cliché, "runaway convention"?

To speak of a "runaway truck" makes sense. A "runaway horse," it is understood, tosses you on your duff or gives you saddle sores. *Runaway* has a different, though still comprehensible, meaning when applied to "child." But what would a "runaway convention" be? A group of drunken Shriners breaking up furniture and cutting paper dolls out of the Bill of Rights? Would the delegates seek to ban air traffic over southern California? Would they demand free parking privileges for themselves at national parks? Deprive redheads of the right to vote? Make Swedish the official language?

The more attentively one considers the possibility of a "runaway convention," the sillier the notion becomes. Put simply, a convention would have no power to "run" anywhere because it could not change so much as a comma of our present Constitution. All a convention could do would be to *propose* amendments. Those of us who have advocated a convention to reform federal fiscal policy have argued that such an assembly could not go beyond its call to propose other amendments. This is not a unique nor a partisan view. A task force of the American Bar Association, including the dean of the Harvard Law School, came to the same conclusion after a comprehensive study.

For the sake of argument, however, let's suppose that Will is right and we are wrong. Suppose a convention did decide to propose another amendment. Or many amendments. So what? Those proposals would mean nothing unless the legislatures of 38 states ratified them.

Put another way, if there are even 13 state legislatures in the United States that would not repeal the Bill of Rights or do some other unmentionable thing, then the danger of a "runaway convention" is nil. For Will to argue otherwise is to indict the legislatures of 38 states and the mass of the American voters who elect them.

In short, the alarmists prove too much. If it is true, as Will and others charge, that the people may be expected to elect fools to a constitutional convention and then elect thousands of other fools to ratify folly in state legislatures, then any danger from a convention could hardly matter anyway. The situation is already hopeless.

Another puzzle occurs to me. Why is Will opposed to a constitutional convention but not to Congress? Congress has all the powers that a convention might abuse and many more besides. We are now living through our 97th Congress. Each and every past Congress was, in essence, an unlimited constitutional convention. Unbound by any state resolutions defining its agenda, any Congress could propose any amendment at any time.

If a convention frightens you, then you should stagger at the thought of having a Congress in session. In addition to its power to propose amendments, Congress can write laws. A convention could not. Congress ratifies treaties; a convention could not. Congress approves appointments; a convention could not. Congress raises taxes, raises taxes, and raises taxes. Congress creates public debt. Congress can declare war. A convention could do none of those things.

In short, it should be obvious to any thinking citizen that a constitutional convention has only a bare fraction of the power that has been routinely entrusted to Congress. Why the delegates would be more dangerous, absent huge staffs, the retention of at least 2.5 percent of their pension regardless of early retirement or job transfer, and the possibility of reelection, is something that Will has not made clear.

For Will or anyone to compare the convening of a constitutional convention with being "drawn into a black hole in space" is nonsense. It converts political theory into "political astronomy," that time-honored discipline that was first brought to public attention by Chicken Little.

*Jim Davidson is founder and chairman of the National Taxpayers Union. His most recent book is* The Squeeze.

QUOTABLE QUOTE

*Woe to the people that cannot limit the sphere of action of the state! Freedom, private enterprise, wealth, happiness, independence, personal dignity, all vanish.*

—Frederic Bastiat

# money

## Metals: Bonanza or Strategic Mistake?

By Steven K. Beckner

With everything but trumpet blasts, minor (excuse me, "strategic") metals have burst on the scene recently as *the* best investment—the "gold of the '80s," as strategic metals booster Gordon McLendon describes them. Undoubtedly there is potential among the scores of minerals that are considered "critical" or "strategic" according to various definitions. But at the risk of sounding hopelessly cynical, a dash of cold water is needed to cool the red hot zeal of the brokerage refineries.

By now the arguments for minor metals as a strategic investment are familiar enough to most. They center around the assertion that the United States and its allies are in a "resource war" with the Soviet Union at a time when Western stockpiles are low, foreign dependence is heavy, and demand is rising for military applications of various metals.

Indeed, the United States *is* dependent to varying degrees on foreign sources for 20 of 36 "strategic" minerals. America must import upward of 90 percent of 7 metals. The federal government's strategic stockpile is felt to be deficient by nearly 50 percent overall, and efforts are under way to bring the government hoard of things like cobalt up to snuff.

It is also true that military spending on the scale President Reagan has in mind is sure to boost demand, and hence prices, for a host of metals required in the manufacture of special steel alloys for the new weaponry. It is likely, too, that nonmilitary demand in areas like laser technology, fiber optics, and robotics will require increases in columbium, titanium, germanium, chromium, and so forth.

Fine, but the first thing that needs to be said is that the prices of metals, like anything else, do not operate in a vacuum. The law of supply and demand is notorious for foiling the bold predictions of investment propheteers. Just as silver fell from $50 per ounce in January 1980 to under $10 recently (despite the insistence of some that it was on its way to $100), so the price of cobalt returned to $18 per pound after being run up to $50 in the wake of the oft-cited 1978 invasion of Zaire's Shaba province.

Strategic metals brokers always use that allegedly Soviet-inspired escapade as an example of the West's vulnerability but neglect to tell the rest of the story—except to quote current prices as a glorious bargain-buying opportunity. The moral of the story is that—resource war or no resource war, cartel or no cartel—the market tends to adjust to the most severe shortages and price manipulations.

In the case of cobalt, just as with silver and oil, production increased and consumption fell as substitutes were found. Needless to say, if you had bought cobalt when it was at $4 per pound prior to the Shaba invasion and sold at $50, you would have done very well. Or take chromium. The engines of capitalism did not collapse when Zimbabwe went "Marxist," and the USSR halted its exports two years ago.

Other metals—titanium, for example—have had equally impressive price run ups. In fact, most of the "strategics" have had mighty gains, which gives rise to the question: How much more potential is there at a time of generally falling commodity prices and apparent disinflation? And if strategic metals are so hot, one wonders why brokers invariably urge clients to hold them for three to five years.

Among the dozens of different metals, there are sure to be some that will soar in the years ahead. How do you choose the best candidates? Chances are you'll have to rely on the expertise of a broker. But even the expertise of the most honest brokerage firms that have entered the strategic metals field in the last two years is very questionable.

The market for metals, barring the few (lead, zinc, palladium, platinum) that are traded on the London Metals Exchange and the New York Mercantile Exchange, is as disorganized and non-investor-oriented as it is complicated. Historically, the market in minor metals has been made by a score of old metals merchants, most of them in London and New York, each of them tending to specialize in a few metals. Their raison d'être has been to act as middlemen between primary producers and end users. Rarely have they wanted to bother with the "man-in-the-street."

That has begun to change somewhat. As investor interest has been whipped up, some of the more adventurous merchants have begun to do business with novice brokers (while continuing to keep their own hands clean of direct involvement with the public).

Firms like Sinclair & Co. and Bache have been doing their best to provide a new service to investors interested in strategic metals by attempting to construct a package of certification, storage, and insurance. But as Nick French, trader for the London merchant firm Wogen Resources Ltd., told me recently in reference to one leading broker, "If it takes us full time [to trade just a few metals], I don't see how they are going to be as sharp on the ball as us." French also complained that the upstart "investment dealers" are hopelessly "trying to force [minor metals] into the parameters of other investments" with their talk of spreads, commissions, unit trusts, and so on. "They are trying to impose outside laws on an industry that traditionally hasn't had them."

For their efforts, investment dealers exact a heavy price from those investors willing to entrust a conservative minimum of $50,000-$100,000 to their care for the recommended fallow period of three to five years. In addition to forgoing interest on his funds for that time and to storage and other costs of at least 2 percent per annum, investors must pay commissions that range as high as 10 percent at either end of the transaction. For the record, Sinclair & Co. works with a buy-sell spread of 5-8 percent, according to Paul Gleason of its new London office.

What's more, these costs assume that you can buy at a reasonable price in the first place. One Florida-based firm was recently quoting cobalt at $50 per pound, more than twice the going market price. Finally, even with the best of brokers or merchants, the metals investor is apt to wait a good while to get what he con-

*(Continued on p. 58.)*

Do you have an investment question? Mr. Beckner may have the answer. Send your query along to REASON Money, Box 40105, Santa Barbara, CA 93103.

(A limited number of reader questions can be answered in print; personal replies cannot be made.)

# health & welfare

## How to Stay Well: The Body's Defenses

By Sandy Shaw and Durk Pearson

Potentially deadly bacteria and viruses are all over and within our bodies, ready to take advantage of any chink in our defensive armor. Why, then, are we not all dead? Our immune system, which protects us from these enemies, as well as from cancer cells and atherosclerotic plaques, is busy all the time. Diseases like the flu, colds, arthritis, and cancer cannot happen except when our defenses fail. Recent research has discovered much about how our immune system keeps us well and how to help it to do a better job, whether we are sick or healthy.

The immune system is made up of white blood cells (of which there are several types), the thymus gland (behind the breastbone), the spleen, bone marrow, lymph glands, and a variety of large molecules such as antibodies, interferon, and complement. There are two main types of white blood cells: the T-cells, which identify enemies, then kill and eat them; and the B-cells, which make antibodies, generally under instructions from the T-cells.

The thymus gland serves as the master programmer of the T-cells, educating them to kill only certain specified enemies and only when they are told to do so. The thymus is supported by growth hormone, supplied by the pituitary gland in the brain. Without adequate growth hormone, the thymus shrinks and becomes less effective in defending the body.

Immunity begins in childhood with exposure to various organisms, either through contracting the diseases or via vaccination against those diseases. Some parents believe that it is no longer necessary to vaccinate their children against childhood diseases. What they don't realize is that if the child does not develop immunity, he or she may contract a childhood disease as an adult, when it can have much more serious consequences.

For example, when a baby gets polio, the disease is usually like a bad cold; the infant recovers and then has immunity for life. But when an older child or adult gets polio, the risk of paralysis is much higher. The education that a child's immune system receives early in life is very important to his or her later health.

Nobel Prize–winning tumor biologist P. B. Medawar has said that everyone probably gets cancer thousands or perhaps even millions of times in his life. Most of the time, our immune system destroys the cancer before we ourselves can detect it. When our immune system is not working up to par, however, those few cancer cells may escape notice and develop into a tumor.

What impairs the ability of our immune system to do its job? One important factor is mental state. Depressed individuals tend to have depressed immune systems. Depression is associated with depletion in brain stores of the neurotransmitter (a chemical used by nerve cells to communicate with one another) norepinephrine, NE. NE causes the pituitary gland to release growth hormone. It is also an important neurochemical for mood. People who have suffered a severe personal loss contract cancer at far higher than normal rates during several months following the loss.

It is possible to replenish the brain's stores of norepinephrine by taking the nutrient amino acid *phenylalanine.* In a clinical study, 70 to 80 percent of patients with depressions of several different types (amphetamine abuse, schizophrenic, endogenous, depressive phase of manic-depressive, and others) were entirely alleviated of their depressions by taking 100 to 500 milligrams of phenylalanine per day for two weeks. (*Caution:* People with high blood pressure should use phenylalanine cautiously and *only* under a physician's care, since blood pressure elevations may occur in sensitive individuals.)

Another important factor that reduces the effectiveness of our immune system is free radicals—chemically reactive and destructive entities created in our bodies as part of normal metabolism, by the breakdown in our bodies of peroxidized (rancid) fat (see our column in the August issue), by white blood cells as weapons for killing enemies, and by radiation. (Radiation sickness is a pure free radical disease, although, normally, radiation contributes only a very small part of the total free radicals to which we are exposed.)

Although we have special protective enzymes (such as superoxide dismutase, glutathione peroxidase, and catalase) and protective antioxidant nutrients (including vitamins A, C, B-1, B-5, B-6, E, the amino acid cysteine, and the minerals zinc and selenium), protection is not perfect, and, as time passes, damage tends to build up throughout the body. Free radicals are implicated as causative agents in aging, cancer, heart disease, arthritis, and many other abnormal conditions.

When oils and fats in the body, especially polyunsaturated fats, are exposed to oxygen (or chemical oxidizers), they become peroxidized (rancid). These rancid fats directly inhibit immune function and also break down, releasing lots of free radicals, further impairing the performance of our immune system. In one experiment, rabbits were fed a small quantity of rancid oil. Then the activity of the macrophages (a type of white blood cell) in the lungs was measured. The macrophages were greatly inhibited—they didn't move about, actively seeking out and killing enemies, as they should have—because of the presence of the free radicals released in the breakdown of organic peroxides in the rancid oil.

This is one reason why overweight people are so much more susceptible to diseases of all types, including heart disease and cancer, than normal-weight individuals: they are full of peroxidized fat. People of normal weight who eat significant quantities of polyunsaturated oils without also taking large supplements of antioxidant nutrients, such as those mentioned above, also run a serious risk of immune system depression.

What can we do to stimulate the function of our immune system? In next month's column, we'll discuss some simple nutrients that can boost the body's defenses.

*A list of scientific literature on this topic is available. Send a stamped, self-addressed envelope to this publication, referring to the date of this issue.*

Copyright © 1981 by Sandy Shaw and Durk Pearson.

Send reader questions to Health & Welfare, Box 40105, Santa Barbara, CA 93103.

*Sandy Shaw and Durk Pearson are consulting scientists, authors, and TV personalities.*

# spotlight

## Computer-Bytten

By Patrick Cox

"It's a changing world," Carl Helmers says, "and there are ways to profit from that change." He refers not just to entrepreneurial opportunities but to one's personal life. While some people are panicky about the growing role of computers in our lives, Helmers is calm and encouraging.

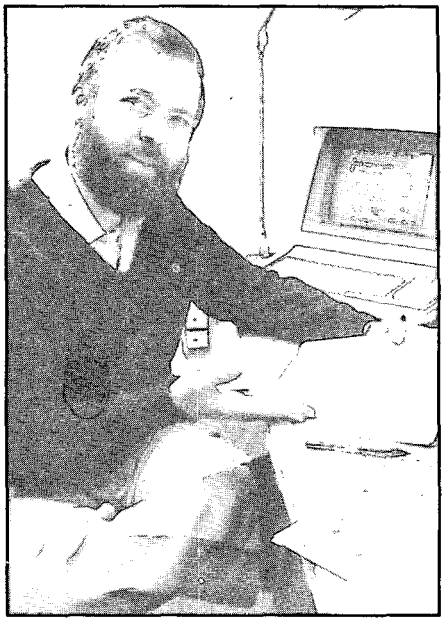
According to the young publisher and executive, personal computers will enable individuals to control their own lives to a greater extent than ever before. Whether used, he says, to monitor the power company's billing procedures, IRS activities, or the use of one's name in the media, the computer, and its accompanying network of information, is a way to gather and efficiently filter more information than ever before possible. Almost instantaneous information about practically every aspect of life is becoming accessible to those who choose to tap into it, and as Helmers likes to point out, "Knowledge is power."

Carl Helmers is the founding editor of *Byte* magazine, the first and most successful of the small-systems computer magazines. In 1973, after earning a physics degree from the University of Rochester and while working for a NASA contractor, Helmers started publishing his own small monthly newsletter for amateur computer experimenters. "It was very crude," he admits; but he built up a list of 200 subscribers who paid $21 a year for the self-published periodical that came out—well, "almost every month."

Two years later, at the age of 27, he met his future wife, the woman with whom he would start up *Byte* with $8,000 borrowed from her mother. By the time Helmers left the magazine in 1979, its circulation was well over 150,000, and it had been purchased by McGraw-Hill. Although he had a three-year employment clause built into the sales agreement, Helmers explains that "over the course of a year and a half it became clear that Carl Helmers the individualist did not fit into the mechanism of a large corporation." So he left to go out on his own.

Helmers characterizes his time with *Byte* as "four years rounding up the people in the field, interacting with them, and helping, I think, nurture the field of personal computers along." Indeed he did.

Today, most of his time goes into his own consulting business and new publishing enterprise. He and his vice-president wife Donna have returned to the concept of the monthly newsletter, but now he charges $200 a year for his services. *Carl Helmers Personal Computer*



Carl Helmers

*Letter* is purchased mostly by companies for whom he estimates it would cost thousands of dollars to generate the information that he makes available. In addition, his company is producing more-extensive and specialized reports that cost $500-$700, and he reports that a publisher is putting together a year's worth of his original newsletters as a book for computer experimenters.

Helmers is representative of a breed of tenacious individualists who see technology—especially computers—as a way of freeing themselves from the constraints of arbitrary government. Helmers ventures into the political world on occasion. For several years he served as a regional representative from New England to the Libertarian Party National Committee. He traces much of his early political philosophy to his taste for science fiction, in particular, a juvenile novel titled *Between Planets,* by Robert Heinlein, which he read in the fifth grade. His philosophy was reinforced when he was introduced to Ayn Rand's near-science fiction novel, *Atlas Shrugged,* by REASON contributing editor Erik Mack.

When asked why so many computer-oriented people and science fiction writers and readers lean toward a limited-government, individual-rights philosophy, he says, "It is because you're working with reality every darn day long. Science fiction writers simulate reality in their heads, creating logical fairy castles in a computer. So you're creating structures that collapse in ruin if you make a wrong move. There's a discipline of all the logic fitting together that is required." In contrast, he notes, "You look into the world of politics and see all these people attempting to make inconsistent constructions, and you say, 'There's got to be a better way,' and you tend to find out that it is probably a libertarian kind of way, which is putting a little more of an incisive and logical analysis on the problems of human affairs."

Helmers is only indirectly involved in politics at the moment. Likening the personal computer to a six-gun, he believes that in teaching people to use one, he is helping them defend themselves from marauders who would take information without their permission. In fact, he says he is working on a system that would make it virtually impossible for anyone who was not intended to have it to take information from a computer.

Helmers stays on the crest of the wave of new technology. When REASON talked to him, he had just returned to his New Hampshire home from a NASA seminar on an aspect of space flight. He considers it important to stay abreast of developments in space flight because "space is the next big libertarian opportunity in terms of where the technology goes, that's where all the 'creative misfits' will go."

Despite his far-reaching goals, Helmers has hopes for the planet earth. He sees the libertarian movement as the equivalent of the European age of enlightenment, but he expects that the jump into space will be the next great opportunity for profound social changes. In the meantime, we're stuck here, but if a computer convention is held on the moon or a space station in the not-too-distant future, the odds are that Carl Helmers will be there.

*Patrick Cox is a free-lance writer.*

# arts & letters

## movies

- **Napoleon**
- **Escape from New York**

Reviewed by John Hospers

• The most spectacular film likely to be shown in 1981 was first released in 1927. The French film **NAPOLEON**, more than four hours long, premiered in Paris to great accolades and made a permanent impression on Charles de Gaulle. But six months later talkies had become the rage, and silent films suffered a quick and undeserved eclipse. Not much was known then about the preservation of film, and most copies of *Napoleon* in time turned to dust. Here and there in some country a reel or two would be found intact, and a search went on for many years to find a combination of reels that would add up to a complete usable copy. Even today it has not been found: the triple-screen sequence in which Napoleon appears in conflict with himself (his mind, his will, his emotions, each depicted simultaneously on a different screen) has never surfaced.

But what we have was eminently worth waiting for. Many technical innovations, often attributed to later films, were already present in this one: fast-moving cameras—sometimes moving on wires, sometimes mounted on the backs of galloping horses—conveyed a sense of fast motion and viewer involvement such as had never been approached before; split screen (different scenes depicted in different parts of the screen) served to speed up the action and draw the viewer's attention to otherwise unnoticed relationships; superimposition of one image on another produced a whole gallery of new effects; and the final scenes were shot simultaneously with three synchronized cameras, making possible a wide-screen Cinerama effect. Besides all this, the film is shown to the accompaniment of a live symphony orchestra conducted by Carmine Coppola (the composer-father of Francis Ford Coppola, responsible for the present production) to a score composed by him, along with the French and British national anthems and segments of Beethoven's Battle Symphony ("Wellington's Victory"). The resulting whole is an exciting surfeit of sight and sound.

Unlike most silent films, this one has hardly dated: only in a few love scenes do we detect the flavor of other films of the 1920s. In its constant flow of movement, its daring imagination, and indefatigable energy, it leaves virtually all other films behind. There is a sequence in which the scene shifts back and forth between Napoleon fighting a Mediterranean storm on a dinghy, in which the camera rocks back and forth with the boat overcome by the waves, and the French Assembly, in which the same rocking motion is continued, back and forth among the fateful faces in a sea of humanity, buffeted about by the storms of the Revolution; the film is full of such visual analogies. (There are touches of humor too: as Napoleon is adrift in the dinghy, an English vessel appears. "Why don't we blast it out of the water?" asks an officer, and Lord Nelson replies, "Don't waste the guns on anything so trivial," little realizing that his future competitor for the mastery of Europe is the occupant of the boat.)

The main feature of the film, however, is its epic sweep. Here is a work of intricate architecture and tremendous scope, like the Berlioz *Requiem*. Through the four hours the cinematic architecture becomes increasingly evident. The sheer grandeur of its scope is stunning, not only to the eyes but to the mind: the integration of disparate elements, the sense of unfolding history, the sheer magnificence of the concept, becomes overpowering. Here is history enacted on a vast scale, yet with meticulous attention to detail. The emergence of Napoleon from being a proud and lonely child, rising through the Revolution and the Terror, to become the master of France, is rendered with a quality that can only be called monumental.

One example: as a child he obtains an eagle for companionship; schoolmates release the eagle from its cage; when he is punished for the revenge he wreaks on them, he is consigned to an icy attic, refusing hour after hour to give in, and then the eagle flies back to him—and that is the end of his childhood. After that, throughout the film, in situations of crisis when he needs to bolster his resolve, the head of the eagle reappears on the screen, superimposed on the visage of Napoleon: the eagle becomes the symbol of the pride and iron determination that dominates both the boy and the man.

It is often said that Frenchmen live even today in a haze of nostalgia for their era of greatness, the age of Napoleon. This film is certainly calculated to reinforce such impulses in every Frenchman. Though the events are often depicted with considerable accuracy (often filmed at the locations where they occurred), Napoleon is perhaps unduly lionized—certainly the film is quite self-consciously anti-British. Napoleon's ability as a military tactician and strategist is repeatedly emphasized, as well as his devotion to his parental family. But although he does say, "War is an anachronism—one day victories will be won without cannon or bayonets," he does not hesitate to use the lives of others to further the goal he envisions for them: a united Europe. The Italian campaign, as the film shows, was won by a combination of tactical genius and intense personal charisma, a rare combination of qualities that produced a result admired by many Frenchmen; but there were, after all, other people already living in Italy who didn't want Napoleon's army there, and many of them were

killed because of his Grand Design.

Yet, though suffering and dying were the order of the day, both in the Terror (which repelled Napoleon utterly) and the battles he led, we are not shown the gory details in which so many of today's films appear to revel: we know what happens, but we are spared the exhibition of dying before our eyes. There are other fine cinematic strokes as well: the scene in which Napoleon, alone, visits the deserted Assembly by night and confronts the ghosts of the Terror, is handled with delicacy as well as psychological authenticity; and in the many crowd scenes, this film takes its place even ahead of Eisenstein's in making huge masses of people come alive before us.

The man who conceived the whole project, Abel Gance, and wrote the film and directed it (as well as acting superbly the role of Saint-Just), has now after long years received his vindication. His late-won notoriety may induce American exhibitors to show us some of his later films, such as *I Accuse.* Today, at the age of 91, he is embarked on a new project, a film about Christopher Columbus. If it is done with half the intensity and imagination of *Napoleon,* it will leave the rest of today's films many light-years behind.

• If you thought that *Fort Apache, the Bronx* gave an unfavorable impression of New York City, wait till you see **ESCAPE FROM NEW YORK.** The year is 1997, and all of Manhattan Island is a penal colony for unrehabilitatable criminals. There are no policemen and guards in it (though plenty around it, to keep anyone from escaping), and the inmates are left to their own devices to survive as best they can. There is only one rule: nobody ever gets out. In the film, a plane bearing the president of the United States is hijacked and is brought down over New York City, with the president still alive somewhere in this human jungle. To get him out, government officials promise a pardon and release to one multiple murderer if he succeeds in rescuing the president.

What happens is enough to sustain one's interest, though one would hardly call the result high drama. The visual spectacle of a decaying New York (the rats, the filth, the abandoned buildings) is enough to make many viewers retch. Nor are the characters calculated to buoy up one's spirits: there is hardly one of them whom one wouldn't gladly see killed (and before it's over, most of them are). As a "What happens next?" story, it's fairly well done, but it contains not one percent of the suspense of writer-director John Carpenter's earlier film, *Halloween.*

*John Hospers is a professor of philosophy at the University of Southern California.*

# books

## The Achilles' Heel of the Reagan Program

**Reaganomics: Supply-Side Economics in Action.**
*By Bruce Bartlett. Foreword by Jack Kemp. Westport, Conn.: Arlington House. 1981. 256 pp. $14.95.*

Reviewed by Joe Cobb

Economics is a behavioral science. When opinion leaders and policymakers have forgotten this fact, nations have declined. Adam Smith told us as much 200 some years ago.

This book appears at a moment in history when most of the economics profession and all of the economic journalists in the United States are trying to figure out what the new administration is doing to our national priorities. Bruce Bartlett is a historian of economic ideas and economic development, currently serving as the deputy director of the Joint Economic Committee of Congress. In this compact book, he has assembled as much proof as any skeptic should need to vote in favor of tax and spending cuts and deregulation.

Here it is, the president's program:

> What American business desperately needs is not more government intervention in the economy to compensate for prior intervention, but *a radical reduction in the overall burden of government*....
> *Index the tax code*....
> *Cut tax rates across the board*....
> *Cap government spending*....
> *Reduce regulations and government credit activities*....
> If these things were done, there would be no need for a reindustrialization policy. Our economy would take off on its own. This is the essence of supply-side economics.

Most of the debate over the administration's economic program, however, has been smoke, not fire. It is, first of all, true that the Reagan administration's budget is just as large or perhaps even larger than Carter's genuine FY 81-82 budget would have been. The news media have focused on the reductions in Carter's postelection "wish list"—which Reagan and Stockman refer to as Carter's "budget." The president has even said with satisfaction that he has *not* cut the budget in absolute terms but has merely reduced its rate of growth.

Bruce Bartlett comments on the risk attendant upon the new supply-side policies:

> The greatest challenge of the 1980s will be to prevent supply-side economics from being perverted into an industrial policy, which would substitute government subsidies and tariffs for tax reduction or regulatory reform and put the United States on the road to centralized economic planning.

What is there about supply-side economics that fertilizes the seeds of this problem? Principally, it is not free from the clutches of the policymakers.

**The risk with the new supply-side economics is that it is not free from the clutches of the policymakers.**

A few years ago, Jack Kemp and Arthur Laffer popularized the idea of tax cuts to stimulate the economy: get the government's heavy feet off the oxygen-hoses of businessmen so they can create jobs and income for everyone. Their sales campaign tended to stress the fact that a growing economy would generate increased revenue for the US Treasury. This sales device came to be seen as the central point of the Kemp-Roth plan.

It is this view of the supply-side model—as a tool to achieve particular macroeconomic goals—that is the Achilles' heel of the Reagan program. A free-market economy will tend to grow at a rapid pace, and individuals within that society will tend to work harder to improve their lives, but any macroeconomic goals that are achieved will come about only secondarily. The free-market economy is nobody's trained dog.

Bruce Bartlett has assembled a compact, heavily documented narrative that shows the deep roots of supply-side economics in pre-Keynesian theory and in experience—different regions in the United States under different policies, the United States as a whole at different

periods of time, and different regions of the world. On his evidence, it is clear that government policy does one thing very well—it stifles savings and investment, restricts growth, and causes inflation. Logically, he advocates supply-side economics, "Reaganomics," as the solution to stagflation and other economic ills.

Yet it is not clear whether the policymakers who are buying it have subscribed to the free-market school of economics because it is the swifter steed on a fast-track to political power or because—as we would hope—they somehow recognize the principle that people have a right to keep the wealth that each, individually, creates and the right to pursue individual goals free from policy considerations.

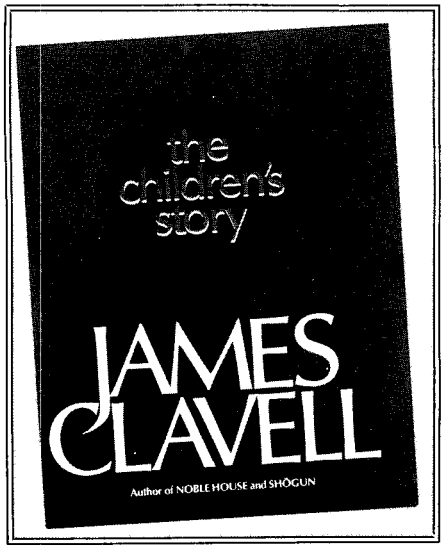
Half of the book is given over to an analysis of the history of tax-cut policies in the past 50 years. As we should guess, reducing the size and scope of government tends to stimulate the economy and bring in more tax revenue. This is a timely discussion as President Reagan worries about the federal deficit, inflation, and high interest rates. It is clear that the process of the economic system is dynamic, and therefore any analysis of the impact of policy should be dynamic and look for second-order effects; but the real issue is not, or should not be, public revenue.

There is an underlying process in the free market system—Adam Smith called it the "invisible hand"; F. A. Hayek has called it "spontaneous order" and "the rules of just conduct." To the extent that supply-side economics is successful, it is due to its congruence with this underlying process: individuals seeking goals, observing one another's property rights, will create and build what we commonly call "civilization"—although a more apt term might be "capitalization," since savings and investment are an essential part of the process.

If Ronald Reagan is able to point the United States government in the direction of individual human achievement, with sufficient momentum that it will endure well beyond his administration, then "Reaganomics" will be a splendid chapter in human history. If, however, as Bartlett warns, the supply-side promoters come to see their tax-cut policies merely as a way of wringing from the private sector the most defense spending or the most new money for social engineering, then the program will fail and the free market will be discredited in the popular mind for decades to come.

Bruce Bartlett's book is an excellent place to start one's study of the fundamentals of "capitalization," with case studies from American history and vignettes from around the world. But the verdict is still far from in on the policies of the new administration.

*Joe Cobb is director of economic analysis for the Council for a Competitive Economy.*




## Shogun, Noble House, And Now . . .

**The Children's Story.**
*By James Clavell.*
*New York: Delacorte Press/Eleanor Friede. 1981. 80 pp. $7.95.*

Reviewed by Patty Newman

"That's the most frightening book I have ever read," an attorney friend of mine said as she put the book down. And it is.

It is not the kind of horror served to you in the 380-page sinister-mystic-mystery novels being born again and again today. It is the kind of creepy fearfulness that crawls through your body, activating in reverse order first your nerve ends and eventually your brain cells.

*The Children's Story* takes 30 minutes to read. A small book—in size only. An unnerving book. A controversial book. A book not to be forgotten for a long time.

They are such little children in this story. Your child, my child. Seven-year-olds. We pay so little attention to the importance of the vulnerability of their minds. The vulnerability of our own minds, perhaps? How unobtrusively control can creep in and how quietly and quickly the coup can be made.

The story takes place in a second-grade classroom. The war (a war between the United States and . . . who?) is over, and "they" have won. One of *their* teachers is replacing the children's old, familiar teacher.

The children know they will not like her. She is one of *them*, the *them* that took daddy someplace where he can't come home.

> *But instead of a monster, a beautiful young girl stood in the doorway. Her clothes were neat and clean, all olive green—even her shoes. But most important, she wore a lovely smile, and when she spoke, she spoke without the trace of an accent. The children found this very strange, for* they *were foreigners from a strange country far across the sea. They had all been told about* them.

Patiently the young teacher—she is only 19—charmingly (deviously? cleverly?) wins the children over, at first by such simple means as having taken the time and shown the concern to memorize their names beforehand from their desk assignments. This impresses the little children. The new teacher points out to them that roll call isn't necessary for a teacher who cares about them that much. Her manner and methods reflect the discipline under which she had been so carefully trained.

Good thoughts, bad thoughts, right thoughts, wrong thoughts, prayers and praying (to whom and for what), uniforms, "Our Leader," parents and secrets from parents, understanding, learning—these and more are warmly and patiently discussed with the children, so easily and effectively countering everything they have been taught before.

But then the children had been taught by rote before, memorizing and reciting words—like the Pledge of Allegiance—but having little if any understanding of what the words mean. The New Teacher is quick to point this out and interpret for the children. Now the "right" understanding is ingested. The children feel much better. Now they understand. The New Teacher is really a very nice teacher, a "good" teacher.

I will not tell you the story, because the shocking what-happens are not nearly so terrifying as *how* they happen. So easy. So logical. So quickly.

In the eyes of the children (at times even in the eyes of the all-knowing reader), Clavell's New Teacher certainly is no monstrous protégé of Hitler or Stalin or Mao. She is young, beautiful, warm, full of fun, concern, and under-

standing. As the book ends, she reflects on what a good land, vast land, this is. And she is warmed by the thought that "throughout the school and throughout the land all children, all men and all women, were being taught with the same faith, with variations of the same procedures. Each according to his age group. Each according to his need."

Clavell's writing in this book obviously reflects his appreciation of the effectiveness of fables and Oriental brevity—condensed thought. There are no excess words. Not one. Since children are not subtle, there is little subtlety in this fable-like story. But the impact is staggering.

The impact is staggering because, although not all of us entirely agree on what is bad and what is good, we certainly agree with the point of the book: the terrifying power of mind control and how very easy it is (especially with the young mind) when there is not enough care or time or patience to counteract it—when there is not enough cherishing of freedom to even recognize when the opposite of freedom is being taught—when there is not even enough knowledge to realize it does not take winning or losing a war to have it happen.

*Patty Newman is the author of three books and a free-lance writer.*

## The Nuts and Bolts of Socialism

**The Socialist Phenomenon.**
*By Igor Shafarevich.*
*New York: Harper & Row. 1980. 319 pp. $16.95.*

Reviewed by John Hospers

Many readers of *From under the Rubble* expressed the opinion that Igor Shafarevich's essay on socialism was the best in the entire collection. Now we have a full-length volume on the history of socialistic theories, written in Moscow where the author is an internationally reputed mathematician, smuggled out of the Soviet Union, published in Russian in Paris in 1975, and finally translated into English. Included is a trenchant introduction by Solzhenitsyn, a close friend of the author and the principal inspiration for the work.

The Soviet system of state socialism is far from new. Reading this history of socialism, whose theorists were largely uninfluenced by one another, one sees with what monotonous regularity the same tenets are set forth. Whether in ancient China or Mesopotamia, whether among the Incas of Peru or the early Christian heretical sects, whether in the theories of Sir Thomas More or those of Deschampes, the same themes are reiterated: the regulation of all details of life by the State, the abolition of private property, the conscription of labor, the abolition of the family.

Private property makes one independent of the State and must therefore be outlawed. Family loyalties get in the way of allegiance to the State, so the family must be rigidly controlled or eliminated; in many cases (for example, Plato's *Republic*) wives and children are held in common, and education of children is always a State monopoly. When religion becomes a threat to State allegiance, it too is persecuted. The same little details keep recurring in diverse historical periods, such as the insistence that doors remain always unlocked because no one may have any secrets from anyone else. And always one's work is determined by the State, and the worker may not change jobs without permission.

The nature of a society is most clearly seen in its system of punishment. Trivial offenses are often followed by the most horrible punishments in socialist societies, since when all life is regulated by the State, any infringement of the law becomes a crime against the State. Among the Incas "there were jails in underground caves in which jaguars, bears, and venomous snakes and scorpions were kept." In ancient China there was a detailed system of punishment for such offenses as stealing a bit of corn from a state farm or whispering a secret to a neighbor: "quartering, cutting into halves, cutting to pieces, decapitation with exhibition of the head on a square, slow strangulation, burying alive, boiling in a cauldron, breaking of ribs, smashing the crown of the head." In an address to the Central Committee of the Chinese Communist Party in 1958, Mao Tse-Tung, reviewing the record of one of his ancient predecessors, said: "Ch'in Shih Huang buried only 460 Confucians alive, we did away with several tens of thousands of people. We acted like ten Ch'in Shih Huangs. We are better than he: he buried alive 460 people, and we, 46,000."

The suppression of intellectuals—and anyone who might have independent thoughts—is another common theme. Shang Yang (4th century B.C.) wrote that "the gifted are of no use and the ungifted can do no harm; therefore, the art of ruling well consists in the ability to remove the clever and the gifted."

The motives of socialist theorists are often held to be noble; but, says the ancient *Book of the Ruler of Shang*, "to transform his people into clay in his hands, the ruler must renounce love of man, of justice, and of people. . . . They must be ruled like a collection of criminals. In a state where the depraved are treated as if they were virtuous, sedition is inevitable; in a state where the virtuous are treated as if they were depraved, order will reign and the State will be powerful." And in modern times Marx wrote to Engels such tidbits as: "It would be good to have a bad harvest next year, and then the real fun will begin. . . . Only two or three very bad years could help. . . . Our fatherland presents an extremely pitiful sight; without being battered from the outside, nothing can be done with these dogs."

Socialism often parades under the banner of justice and the alleviation of suffering; yet, says Shafarevich, "the alleviation of suffering is set aside until the victory of the socialist ideal, and all attempts to improve life at the present time are condemned as postponing the coming victory. [It] is in no way compatible with compassion for *today's* victims of oppression, who will have no share in the future just society."

Socialism declares itself to be egalitarian. *Equality* ordinarily means "equality of *rights* and sometimes equality of *opportunity*. But in socialist ideology the understanding of equality is akin to that used in mathematics, i.e., *identity*, the abolition of differences in behavior as well as in the inner world of individuals." And this is impossible "without absolute control of an all-powerful bureaucracy which would engender an incomparably greater inequality." Dostoevski, who foresaw the future history of socialism more clearly than any other writer, described the socialist ideal as that of an ant-hill and a bee-hive, and Stalin himself called the inhabitants of the socialist state "nuts and bolts."

Socialism, says the author, has no rational arguments in its favor, and its adherents cling to it more "by instinct" than by the specious arguments they use. "Socialist conclusions are radically at odds with experience," yet socialists rise eternal throughout history.

It is not enough to say that all these people merely want to manage other people's lives, though most of them do have this messianic delusion. Shafarevich concludes that on a deeply unconscious level the ultimate aim of socialism is death, the death of the human race: the recurrent attraction of this perennially fascinating

but indefensible doctrine is the same as the attraction of death, to people with a deep hatred for themselves and the world. Psychologically, says the author in a conclusion that may have less provable basis than anything in the 300 preceding pages of historical research, what animates socialism is the hatred and fear of life and the readiness to impose suffering and death not only upon oneself but upon the entire human race.

Whatever may be said of this conclusion, the theory and practice of socialism through the ages has been admirably set forth in this volume. Each chapter in the history resounds like a loud gong that keeps sounding endlessly, with only minor variations, blasting us so loudly with its reiteration that it finally communicates to us a visceral fright, even while it lays before us a fatal panorama of ideas with which we desperately need to be acquainted in order to deal with them.

*John Hospers is a professor of philosophy at the University of Southern California and is REASON's movie reviewer.*

## Missing Liberty

**Counting Our Blessings.**
*By Daniel Patrick Moynihan.*
*Boston: Little, Brown. 1980.*
*348 pp. $12.95.*

Reviewed by Tibor R. Machan

In the author's words, this book of essays, collected from various magazines and journals and published during the 1970s, concerns, first of all, "American values in foreign affairs"; then "issues in social science that touch upon questions of law and government" (Moynihan's original expertise); next, "political issues of the present"; and finally, "arms control." They are not the usual academic discussions, however, nor mere polemical outpourings, but a mixture of analysis and rhetoric in the classical tradition.

These are pieces that aim to persuade or at least to reinforce support for certain ideas and policies by those who like to think that they are high-minded people. They may well be—but then they deserve a book of greater moral substance.

A general problem with Moynihan and his neoconservative friends and associates is that they have defended America eloquently, but their conception of what is essential about America does not square with the facts. *Counting Our Blessings* illustrates the point well.

Early, on page 4, Moynihan refers to the work of the late Prof. Martin Diamond, who argued against the revolutionary nature of the American political tradition and claimed that the Declaration of Independence offers no political advice. Daniel Patrick Moynihan is, not surprisingly, pleased with Diamond's message. Throughout his book he stresses many more conservative themes than anyone who understands the truly revolutionary nature of the American political tradition could.

**Moynihan loses sight of the point of defending America, namely, that it respects individual liberty.**

The concept of liberty, though important enough in Moynihan's view, just does not figure as a central feature of "Reflections on the Future of America," the subtitle of his book. National defense; wise management of the ship of state; the significance of religion for maintaining public morality and decency; the enormous, even all-encompassing, threat of the Soviet Union, not just to the United States, but the Western world—these are themes Moynihan reiterates throughout. But, like other neoconservatives—most of whom really do not entertain much hope of a world in which individuals can freely embark upon their own projects, leaving to the State but some minimal functions spelled out in the Declaration of Independence—Moynihan loses sight of the point of defending America, namely, that it respects individual liberty.

Pres. Woodrow Wilson plays an all-important role in Moynihan's early chapters, and not surprisingly. Wilson's conception of America has much in common with that entertained by Moynihan and neoconservatives, albeit seriously modified to fit a less-ambitious and self-confident period of American consciousness. It is true that Wilson saw America's role as that of upholding the ideal of liberty for all human beings. As Moynihan quotes Wilson following the latter's visit to France, where he saw French women tending American graves: "France was free and the world was free because Americans had come." But the freedom at issue is not very clearly spelled out, especially by Moynihan. Throughout this work one gets the impression that national independence and power are more important than the individual liberty in behalf of which that independence and power had been originally established and thought justifiable.

Frankly, Moynihan comes off in this work as little more than a Harvard-educated and well-read Hubert Humphrey. He has heart; but unlike Humphrey, he also thinks that heart must be given some prudent direction by social science, by political IQ. As to what ideals our society should support, beyond national independence and power, it is difficult to ascertain. Nationalism is not by itself a good thing, as the history of Europe, for example, amply demonstrates. Nationalism is justified only when the nation at issue stands for values that are justifiable apart from the fact that they are *our* values.

My liking for this book is greater than I have given evidence of in these observations. Indeed, there is much that one can learn from Moynihan's often careful scrutiny of major events on the fronts of America's recent judicial, legislative, and diplomatic histories. But much of that intelligence lacks purpose when one realizes that the ultimate substance of which America is composed—its absolutely unique concern with individual liberty—is lost in Moynihan's penetrating discussion of often important but never decisive details.

Let me conclude by suggesting that Senator Moynihan and those who share his views address the following questions:

- Should the national defense of America ever permit the sacrifice of the ideals of individual rights and the free society?
- Can the vitality of the American economy be recovered—via, for example, a freer market economy—while maintaining the kind of security state Senator Moynihan seems to endorse?
- Is the American citizen responsible to live his life so as to provide for the defense of the rights of all human beings, even those whose rights are threatened thousands of miles away? Does an affirmative answer not imply that every free human being is the slave of an unfree one?
- Does not the conception of the United States of America along Wilsonian lines constitute a serious insult to the people of other regions of the world? Do these people depend so much on Americans? Is it not enough that America teach the rest of the world, by example, what liberty can accomplish?

With these and similar issues squarely confronted, the eloquence and passion

that show through Senator Moynihan's discussions could gain far more substance than, unfortunately, they now possess.

*Tibor Machan, a senior editor of REASON, is currently a visiting associate professor of philosophy at the State University of New York, Fredonia.*

## Surviving the '80s, Financially Speaking

**Survive and Win in the Inflationary Eighties.**
*By Howard J. Ruff.*
*New York: Times Books. 1981.*
*280 pp. $12.50.*

Reviewed by David Brudnoy

Howard J. Ruff, who doesn't look the part his name suggests, advised us in 1979 about prospering during the coming bad years, and now he returns with the doom-gloom sequel *Survive and Win in the Inflationary Eighties.* The irony that this economically cogent work is published by a subsidiary of the *New York Times* will have to go unexplored here, though it does say something rather wonderful about our country that a leading perpetrator of the *real* voodoo economic theorizing will make money from a book arguing precisely against everything, at least everything in the realm of economics, that the *Times* stands for.

The $12.50 you shell out for *Survive and Win* may well be the best investment you'll make this month, though if it's the best investment you make this year, you won't have paid attention to Ruff's advice. For those who believe that the Government and the People are one, or even fairly closely related except by force, the rest of what I have to say will fall on earmuffs.

With the author's five principles of government, this reviewer has no argument. Try them out on yourself:

1. Government is not compassionate or wise. Government is impersonal and stupid.
2. When government solves a problem, it invariably creates two problems of equal or greater dimensions.
3. The true function of government is to make small problems worse.
4. It is the tendency of all governments to increase their power at the expense of the freedom of its citizens.
5. True patriotism requires resistance to that expansion of power, within the spirit and letter of the Constitution.

Still with me? Howard Ruff leads us gingerly through a few well-chosen examples of the horror that is our government today and slides us not so gently but quite convincingly into his basic premise, which is: we ain't seen nothin' yet.

To elaborate: there will be a small, brief decline in the rate of inflation late this year, and then the rate of inflation will dramatically climb upward, ever upward, until, barring a combination of miracles and unaccustomed wisdom by those who misgovern us, the economy will fall to pieces. Sound gloomy? So's the book.

**Howard Ruff**

This is no panacea approach to saving the country, because Ruff, and many of the rest of us who have learned from Ruff and a handful of others like him, believes that virtually everything points to increasing economic mischief, not to salvation. Two factors weigh heavily against even the most intelligent approach—for which Ruff would say, Reagan's approach—to combating economic catastrophe: the debt and Social Security. You either know the abyss that awaits us in the not-so-distant future owing to the increasing payments on the national debt and the insidious growth in Social Security obligations...or you don't. If the latter, there is little point in reading further.

Assuming that you understand what the administration, *any* administration, can*not* do very much, if anything, about, then consider the very great likelihood of an economic debacle in the 1980s and consider further whether or not you want to do something about your own future. Ruff believes that the Reagan government can at best, owing to the political realities weighing against his administration's approach, delay slightly the near certainty of runaway inflation and with it the ruination of the economy in general. There is time, he is saying, both to push vigorously for more of what Reagan wants—and what America desperately needs in the economic sphere—and to prepare your own survival strategy. As to the former: make your elected officials know that you want them to act in an economically sound manner.

As to the latter, consider Ruff's fundamentals: avoid failure; recognize that inflation is epidemic; don't be greedy; don't go into volatile, highly leveraged speculations; be patient; avoid the "give-me-action" syndrome; diversify across the beat-inflation spectrum; don't confuse investments and causes; avoid loaning money to banks; never buy a negative cash flow; learn to beat taxes; understand that intangible ideas move the world; dare to be different; and create a framework for your investment decisions—with which the bulk of this vital book deals.

Copyright © 1981 by David Brudnoy

*David Brudnoy is a radio and television talk show host in Boston and writes a nationally syndicated column.*

## On Hutt on Keynes

**The Keynesian Episode: A Reassessment.**
*By William H. Hutt.*
*Indianapolis: Liberty Press. 1979. 449 pp. $10.00/$4.50.*

Reviewed by Murray N. Rothbard

Professor William H. Hutt is one of the last of the irrepressibly cheerful and courteous martyrs of the Keynesian revolution. As a leading disciple of the doughty Edwin Cannan of the London School of Economics, Hutt was just reaching the height of his powers as an economist when he was hit by the tidal wave of the Keynesian revolution in the mid-1930s. A few years after the revolution struck, there were only a few pre- and anti-Keynesians left: Mises in Vienna; his outstanding student Hayek, who had migrated to London; and Hutt—a methodological and ideological cousin, so to speak, of the Austrians—in South Africa.

Though isolated and neglected, Hutt embarked on a highly productive career, undaunted in his devotion to economics, to free markets and hard money, and in his profound and uncompromising opposition to the Keynesian and "post-

*Photograph by Christine Dorffi*

Keynesian" system. If his books in the 1930s were rarely read, this was particularly true of his comprehensive and profound critique, *Keynesianism—Retrospect and Prospect* (1963). Published in the midst of the dark days of total Keynesian domination of American economics, the book sank without a trace—helped, I must admit, by Hutt's uncharacteristically dense and difficult style.

Despite this, the book contains what is still the finest critique of the Acceleration Principle ever written. The book, as well as Hutt's other writings, is marked by a persistent and welcome emphasis on the vital importance of the market price system as a *coordinating* process. Thus, Hutt has been the foremost economist to stress that the *only* cause of unemployment of resources, land, or capital is the owner's insistence on charging a price or wage higher than what the market will bear (what Hutt calls "withheld capacity.")

The last few years have seen a heartwarming resurgence of Bill Hutt's publishing activity, both in new books and in reprints and new editions of earlier volumes. The recent renaissance of free-market and Austrian School economics has provided a far more favorable climate for receiving his writings than at any other time in a half century.

The new *Keynesian Episode* is essentially an elaborate reworking of his earlier *Keynesianism.* The style is now lighter; the analysis is interspersed with fascinating tidbits about other economists and the changing tides of economic opinion. The book can be read on two levels: as a still-comprehensive critique of Keynesianism and as a rich storehouse of references and insights on numerous relevant topics.

It is cheering to see this warm and buoyant octogenerian begin to receive some of the plaudits and honors he so richly deserves. May this be only the beginning of a new and lengthy phase in Bill Hutt's noble and remarkable career.

*Murray Rothbard is a professor of economics at Brooklyn Polytechnic Institute of New York.*

# money

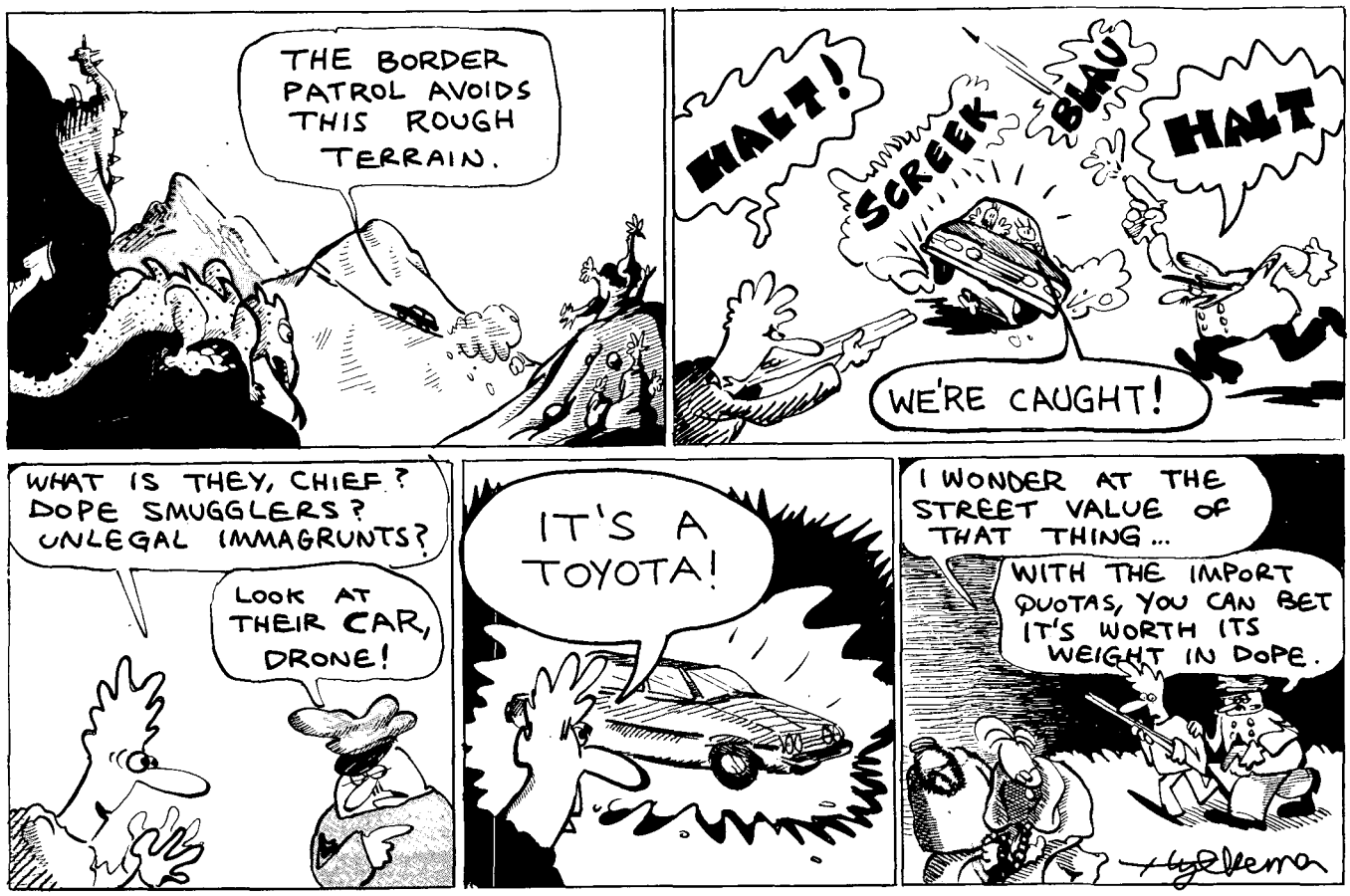
*(Continued from p. 49.)*

siders a "reasonable price" for his barrels or ingots or boxes of strategic goodies, simply because of the illiquidity of the market.

All that having been said, however, one should not overlook this alternative investment area. Just be careful, and educate yourself. Consider stock market plays related to strategic metals—not only the shares of producers like Oregon Metallurgical and US Antimony, but also the shares of end users. "What's important to remember is that you don't have to just be involved in brokering metals," says Robert Sylvester, a Washington-based strategic metals consultant. "You can get involved in mining stocks, mining equipment companies, pipeline companies, fabricators, and end users who push the material through the system. A diversified and total strategy is better than just buying cobalt." ◧

# rudebarbs

**Randall K. Hylkema**


THE BORDER PATROL AVOIDS THIS ROUGH TERRAIN.
HALT!
SCREEK
BLAU
HALT
WE'RE CAUGHT!
WHAT IS THEY, CHIEF? DOPE SMUGGLERS? UNLEGAL IMMAGRUNTS?
LOOK AT THEIR CAR, DRONE!
IT'S A TOYOTA!
I WONDER AT THE STREET VALUE OF THAT THING...
WITH THE IMPORT QUOTAS, YOU CAN BET IT'S WORTH ITS WEIGHT IN DOPE.
Hylkema

Permission to reprint this cartoon in periodicals is hereby granted, provided it is accompanied by this notice: Reprinted with permission from REASON magazine. Copyright © 1981 by the Reason Foundation, Box 40105, Santa Barbara, CA 93103. $19.50/year.

# classified

## ANNOUNCEMENTS

**ADEQUATE DEFENSE CAUCUS:** concerned Libertarians who are working to determine and promote an adequate defense voice within the LP. For information and issue paper write LP ADC, P.O. Box 1064, Colton, CA 92324. In LA area, call 213/743-5631.

**FREE!** About 100 back issues of Reason magazine. You pay shipping. C. M. Graham, 817/549-3530.

**DID YOU MISS KARL HESS** at the last Future of Freedom Conference? You can still hear him. Tapes Available ($6), Future of Freedom Conference Series, 405 E. 3rd St., No. 319, Long Beach, CA 90802.

**NATIONAL CONFERENCE ON ECONOMIC** FREEDOM, Oct. 21-23, Washington, DC. Speakers: Sowell, Lehrman, Liggio, Moore, Paul, Baden, Fink, Pasour, Salerno, Smith, Armentano, Goodman, others. Council for a Competitive Economy, 410 First St. SE, Washington, DC 20003. 202/544-3788.

## BOOKS

**FAR OUT WISDOM! REMARKABLE BOOK** offers revolutionary ideas to improve our liberty, survival, economics, energy, etc. Facts & photos. Satisfaction guaranteed. Only $6.95 prepaid in USA. Order from Legion of Light Publications, Box 107R, Lytle Creek, CA 92358.

**HAYEK BUYS BOOKS FROM US—**Why Don't You? The Alternative Bookshop has the world's largest mail-order catalogue of books, pamphlets, and magazines of libertarian and classical liberal thought. A free copy of our 188-page catalogue is available on request, from: The Alternative Bookshop, 40 Floral Street, Covent Garden, London WC2, Great Britain.

**SEX! RELATIONSHIPS.** Marriage! Abortion. Children! Animals. Revolution! Solomon, Sheba's adventures! Absolute morality. Lao-tzu! THE SOUL OF LIBERTY. $6.75. Gutenberg Press, Box 26345-N, San Francisco, CA 94126. New addendum. Moneyback guarantee!!

**BOOKS FOR THE TROUBLING TIMES AHEAD.** Contemporary titles on survival, financial self-sufficiency, plus much more! Catalog $1.00. Paladin Press, Box 1307-RC, Boulder, CO 80306.

**IS THE INCOME TAX OBSOLETE?** The philosophical libertarian argument against personal direct taxation with commentary by Jeffrey St. John. 298 pages hardcover. $4.95 postpaid from Politec Research Associates, 13006 Philadelphia St., Whittier, CA 90601.

**DISCOUNT LIBERTARIAN BOOKS.** For more information send SASE to Free Forum Books, Deer Park, No. 12, West Willington, CT 06279.

**HAVE FRIENDS** who are interested in liberty, but don't have time to read a stack of books to learn more about it? Give them the new booklet *A Liberty Primer,* a summary of the case for liberty in 15 short, easy-to-read chapters from the viewpoints of philosophy, history, economics, and psychology. Only $4.95 including postage. Quantity discounts. Genesee Valley Chapter, Society for Individual Liberty, Box 3824, Rochester, NY 14610.

**UNUSUAL BOOKS.** Survival, fake ID, locksmithing, hiding contraband, dodging Big Brother, living free, black market, more! Over 500 titles on the practice of anarchy in huge illustrated catalog. $2.00. Loompanics, Box 264-P, Mason, MI 48854.

## BUSINESS OPPORTUNITIES

**ENTREPRENEURS WANTED!** Ground floor opportunity to build sideline business from your home. Fantastic tax benefits and profit potential. Free Details. Enhance Marketing, P.O. Box 23191, Minneapolis, MN 55423.

## EDUCATION

**HOME STUDY COURSE IN ECONOMICS.** A 10-lesson study that will throw light on today's baffling problems. Tuition free, small charge for materials. Write Henry George Institute, 5 E. 44th St., NY, NY 10017.

**WANTED—**A set of cassettes of Barbara Branden's course on fiction writing offered through Academic Associates. Will pay high price (within reason). 725 Fulton Rd. NW, Canton, OH 44703.

## EMPLOYMENT

**EXECUTIVE ASSISTANT—**Libertarian woman, 32, extremely capable, attractive, intelligent, seeks employment in Libertarian environment. Minimum salary: $25,000. Box SC, REASON.

## FINANCIAL

**BUY SILVER COINS** at face value. Complete details $3.00. Satisfaction guaranteed. Bannon, Dept. R-4, P.O. Box 942, Pittsburgh, PA 15230.

**PENNY STOCKS** Have Great Profit Potential. As low as 2¢. 1,000% annual price swings. New "how to" books. Free brochure. Penny Stock Press, Dept. BC-11, P.O. Box 430, Queens Village Station, NY, NY 11428.

**OFFSHORE INVESTMENT-TAX-TRUST** PLANNING? Consider Costa Rica. Dr. Robert Adler (Dr. Dinero) 506/33-19-97 or 33-41-45 is your best consultant. Apartado 366, Centro Colon, San Jose, Costa Rica, Central America.

## PERSONALS

**HI! STORM GILL.** Long time no see! C. M. Graham.

**FRAMED PRISONER—**Seeking trustworthy friendship; sincere concern. Need tenacious support. Please respond. Gus G. Owens, P.O. Box 45699-138775, Lucasville, OH 45699.

**HELP!** Desperate young vibrant attractive male. Businessman and graduating physician. Needs highest self-esteem female. 3417 NE 78th Ave., Portland, OR 97213.

**FREEDOM'S CHILD LITERARY JOURNAL** seeks poetry, fiction, essays, reviews. A great opportunity to be published. Submit with SASE: c/o Anlician Enterprises, P.O. Box 971, Grover City, CA 93433.

**WITCHCRAFT—**Harness its power for a richer, more fulfilling spiritual and material life. Free details. Box 1502, Newbern, NC 28560.

## PRODUCTS

**MICROCOMPUTERS—**Home and small business systems. Most major brands, High discounts. TSR, Box 9191, Akron, OH 44305.

**NATURAL VITAMINS, MINERALS,** Herbs, Cosmetics, hard-to-find Food Supplements and Survival Foods from your mail-order Health Food Store. One dollar with inquiries. *Health & Beauty,* P.O. Box 622, Avis, PA 17721.

**TRS 80 COMPUTERS.** Best deal anywhere. Charles Blackwell, Radio Shack Dealer. Box 732, 30 N. Congress, York, SC 803/684-9980.

**RELAX, BLOCK PAIN,** Promote Healing. Hospital tested worldwide. Free details—send LSASE to Stimson, Box 249R, Lakewood, CA 90714.

**LP/10 RECORDINGS** and hundreds of other libertarian speakers on cassette and video tape (rental available). Catalog $3.00 (deductible from purchase). LIBERTY AUDIO, 824 W. Broad St., Richmond, VA 23320.

## PUBLICATIONS

**GRYPHON PAMPHLET SERIES.** A quarterly series of pamphlets on various topics for freedom-oriented readers!! One year subscription $8.00, two years $15.00. Introductory offer: $2.00 brings two back issues. Lion Enterprises, RR 3, Box 127, Walkerton, IN 46574.

**DIRT CHEAP.** Build a home. "Your Own Adobe" send $4.00 to Rose Publications, P.O. Box 33035-R, Tucson, AZ 85740.

**FLATULENT? (FREQUENTLY?) FEAR NOT!** Read Benjamin Franklin's long-suppressed essay of 1780 on (believe it or not) farting. Hilarious! Frameable. $4. "Essay," Box 69-A, Carrboro, NC 27510.

**BEYOND MONOGAMY,** open relationships newsletter and networking facilitator. Includes interviews, letters from readers, and personal ads. $9/yr., sample $1.00. Box 6877-RE, Denver, CO 80206.

**101 BIBLICAL CONTRADICTIONS,** $3.00, X-rated, Illustrated Bible Stories (adults only), $3.00. Newsletter sample included. Discovery, Box 20331-RBX, West Valley City, UT 84120.

**ANNOUNCING THE NEWSLETTER** of LIBERTARIANS FOR LIFE—*LFL REPORTS:.* Sample copy; additional anti-abortion, anti-draft literature: $2.00. LFL, 13424 Hathaway Drive, Wheaton, MD 20906.

## SERVICES

**FINE WOODWORKING** using woods from around the world. Contemporary designs. Individually handmade. Classic joinery. Guild of Master Craftsmen. Your design or mine. Functional/art pieces. Seeking commission work delivered early 1982 and beyond. 305/734-6770.

RATES: 40 cents per word, $7.50 minimum. For REASON box number instead of personal address, add $1.50 per insertion. *All orders must be accompanied by payment,* and copy should reach us by the first day of the second month preceding the month of issue (e.g., advertising for the March issue, which is mailed early in February, should reach us by January 1).

**THE CLASSIFIED AD DEADLINE FOR THE DECEMBER ISSUE IS OCTOBER 1.**

## The Supply-Side Revolution Has Begun — Find Out Where It's Going In

# The Manhattan Report

*A sampler from recent issues:*

**George Gilder & Lester Thurow** Debate "The Productivity Problem"

**David Meiselman** Debunks "Supply-Side Deficits"

**Hilton Kramer & Lewis Lapham** on Government Funding of the Arts

**Alvin Rabushka & Stuart Butler** on Urban Enterprise Zones

**Lewis Lehrman** on International Monetary Systems

**Thomas Sowell** on How *Not* to Help Minorities

**George Gilder** on Margaret Thatcher's "One-Legged Monetarism"

Plus regular features like Market Forum—presenting in-depth interviews with leading figures in the world of economics such as **Prof. George Stigler, Cong. Phillip Gramm,** and many more.

"*Manhattan Report* gives me an excellent update on the supply-side world. It's well-written and always topical."

**—Bruce Bartlett**
author of *Reaganomics*

"*Manhattan Report* is smashing!"

**—Priscilla Buckley**
Managing Editor, *National Review*

From the International Center for Economic Policy Studies, the folks who brought you George Gilder's "Wealth and Poverty," comes a new monthly update on the latest developments in supply-side economics, as well as reports and essays on the best in contemporary, free-market thought.

*Manhattan Report* is published by ICEPS—the International Center for Economic Policy Studies.

Order your subscription today and get a headstart on the economics of the 80's.

**Special Offer:** With all pre-paid subscriptions you are eligible to receive an "I'm a Supply-Sider" T-Shirt from ICEPS. (Additional shirts are available at $4.95 each.)

**ORDER FORM**

**Manhattan Report**
ICEPS
20 W. 40th St.
New York, N.Y. 10018

Send me the next 10 issues of *Manhattan Report* at the subscription rate of $12 per year.

Name _____

Address _____

City _____ State _____ Zip _____

**SPECIAL OFFER:** ____ I would like an "I'm a Supply-Sider" T-Shirt.

SIZES:
____ Extra-Large ____ Large ____ Medium ____ Small

____ Enclosed is my check or money order of _____ for _____ additional T-Shirts.